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Oil, Gas Sector Strategy Discussed

954F0806A Moscow MOSKOVSKIYE NOVOSTI in Russian No 64, 18-25 Dec 94 p 30

[Article by Vladimir Gurevich: "Russia: Hydrocarbon Landscape"]

[Text] Abroad (including CIS countries) it adheres to active, aggressive market tactics. In Russia itself it is forced to maneuver under restructuring conditions, to protect itself against the increased pressure of lobbyists of other sectors, and to anxiously see to it that its interests are not violated in the course of the confrontation behind the scenes in the government's highest echelons.

Such a conclusion is only an outline, a "dry leftover," because today it is difficult to talk about some uniform policy of Russia, about clearly formed alliances of its politicians, or about a firmly consolidated status of its departments and state corporations. Suffice it to recall the mutually exclusive positions of Andrey Kozyrev and Viktor Chernomyrdin (as well as of the Ministry of Fuel and Energy) concerning Baku's oil contract with the Western consortium. Or the confrontation between Mayor Yuriy Luzhkov and Minister Yuriy Shafranik concerning the gasoline crisis in Moscow with the actually common views of the possible liberalization of oil export and the problem of state regulation in general. Or Gazprom's increasingly stronger positions (also demonstrated by the "special" procedure for its conversion into a joint-stock company) with not quite clear prospects in case of a change in prime minister, the lack of obviousness of which is confirmed by the criticism of this corporation, in particular, by first Vice-Prime Minister Oleg Soskovets. Or the president's unexpectedly (including for the prime minister) prepared order to look into the record of the use of raw-material (read: fuel) resources in connection with the alleged "shortfall in the receipt" by the state of currency amounting to 20-30 billion dollars annually.

Nevertheless, some strategic intentions, quite general, but also quite clear, can be discussed. In any case the president's draft Edict "On Principles of Energy Policy" proposes during the period until the year 2010 to overcome the decline in oil production, stabilizing it at the level of 325 million tonnes, which can be considered the standard level from the standpoint of internal needs, which have not yet been determined, but, obviously is of some use from the standpoint of export; to increase the depth of oil refining to 75-80 percent, which is both necessary and possible during the investment of foreign capital; to raise the efficiency of utilization of natural gas, at the same time, increasing its share in energy consumption and export, which is explicable, on the one hand, by the growing costs of gas production and, on the other, by its predominant share in commercial reserves of energy resources.

Russia's attempt to retain control and to ensure its participation in the development of oil and gas resources along the perimeter of its borders—in former USSR republics—and in the transportation of this fuel for export is also fully understandable. Hence, the ever newer variants of pipeline "routes" from the Caspian Region, even though at least one strategic export oil pipeline (from Kazakhstan's Tengiz) will pass, as Russia wanted, on its territory and with its participation. At the same time, it (in the person of "LUKoil") has achieved participation in the development of the Baku oil shelf, as well as (in the person of Gazprom) of Kazakhstan's Karachaganak gas condensate deposit.

The effect on the export projects of Turkmenistan, which has the geographical possibility of selling gas, bypassing Russia's territory, that is, through Iran and Turkey, is a more complex task. The project for such a gas pipeline for annual deliveries of 15 to 20 billion cubic meters could create competition for Russian gas on the European market—if Western Europe would agree to include this new source in its network. It has not yet manifested such a desire. However, in this case as well Turkmen gas can play the role of a competitor—on the market of Turkey, the Balkans, and Central Europe. Especially as all these countries, which today almost completely rely on the import of Russian gas, express the desire—for now theoretical—to diversify supply sources.

Another incident with the transit of Russian gas through Ukraine (end of November-beginning of December) can also stimulate them in this direction. This time the south-western, not western, vector of deliveries suffered: The Ukrainians "expropriated" part of the fuel earmarked for Bulgaria and Turkey. As a result, daily deliveries for the Bulgarians dropped to one-fourth and for the Turks, to one-half. However, Turkey, even without this, had already begun the search for a new supplier (for example, Algeria).

In turn, Russia itself is forced to search for new routes for fuel export. In particular, Turkey's tough position on the question of Bosporus, through which tankers already transport 35 million tonnes of exported Russian oil, must be taken into account. Moreover, it will be impossible to add Baku and Tengiz oil to this flow. However, it is possible to deliver it from Novorossiysk to Bulgarian Burgas and, further, to Greece's sea terminals. This is how the project for an oil pipeline from Bulgaria to Greece, in which Gazprom intends to participate, arises.

Undoubtedly, Gazprom has bigger political and resource opportunities than the Russian oil industry. It is no accident that in the course of reorganization the oil sector is being divided into a number of companies, the process not yet being completed, whereas gas facilities have remained indivisible. Nor does Gazprom actively seek foreign investments, whereas the oil industry is in extreme need for them. True, it also has chances to find them. According to many indications, for example, "LUKoil" with quite good reasons expects to receive 3 to 4 billion dollars from the sale of part of its shares to foreign customers. Gazprom is also ready to sell 9 percent of its shares. However, judging by everything, it is driven not so much by the need for an immediate inflow of funds as by the desire to strengthen its new role on Western markets—the coowner of gas distribution networks abroad. According to some reports, it can be a matter of a distinctive "barter"—an exchange of its shares for the shares of Western gas facilities. In this case, as a matter of fact, a purely symbolic number of Gazprom shares can be offered for sale.

Meanwhile, the German Ruhrgas—the largest customer of Russian gas in the world—through the mouth of Burkhardt Bergmann, a member of the Ruhrgas AG board, has already announced the desire to acquire its partners' shares.

Although Bergmann noted with regret that, assigning 9 percent of its shares for sale, Gazprom intends to sell to the "same hands" and not at all more than 3 percent, it may happen that, if the mentioned reports are true, in reality, even these 3 percent will not exist.

For now no visible changes in relations between the biggest customer (Ruhrgas) and the biggest seller of gas (Gazprom) are observed. The parties talk about the continuation of their cooperation, but the problem of "competition of Russian gas with Russian gas," to which Ruhrgas points constantly, does not evoke responses by Gazprom, which also supplies gas to another German firm (Wintershall), together with which it owns part of the distribution network on the German gas market. The next meeting of these three companies, which should have been held in Berlin in December (the first was held in Sochi in August), was postponed for an undeclared period. According to the Gazprom representative, the reason is that the preparation of the question of the transit of Russian gas through Poland "requires more time" (it is a matter of the well-known project for the Yamal-Europe export gas transport network, which should pass through Belorussia and Poland—the first large gas pipeline from Russia bypassing Ukraine). It is quite possible that this postponement is due to the fact that Prime Minister Chernomyrdin's visit to Warsaw was not held in November, a visit in the course of which clarity could have been introduced into the "Polish" part of this international project.

On its part Ruhrgas more than once let it be known that it does not seek any investments in the project on Russian territory if Gazprom itself intends to independently ensure investments in this part of the project. However, the Polish part of the giant gas pipeline, conversely, is considered a potential project for cooperation. Possibly, it will take place if the project itself takes place.

Nevertheless, some doubts expressed in connection with this do not seem so artificial. First, although the increase in the demand for gas in Western Europe and, in particular, on the German market is obvious, it is not quite clear whether they will need such large additional quantities of it as are to be supplied through this transport network. Second, Western customers search for the optimum correlation of delivery sources, weighing political and other risks. Third, the recovery of expenditures both on the laying of the network itself and on the development of the Yamal Gas Region can be open to question. In this case—at least at the first stage—an appropriate withdrawal from Russia's existing gas distribution network with provision for export deliveries from already developed deposits can become more acceptable. The release of gas resources for this is possible with a further rise in domestic gas prices and a corresponding decline in domestic demand—a scenario well known throughout the oil sector. Finally, fourth, problems of the Russian budget, in fact, can force the expansion of the tax system toward so-called "resource payments," when raw-material sectors and, first of all, the richest of them—the gas sector—become the predominant, not merely important, source of budget revenues. In such a situation its revenues would be redistributed to a much greater extent than today (which the Russian military-industrial complex and the agro-industrial complex would also welcome actively), whereas Gazpom itself would be forced to seek investments just as actively as oil industry workers do this today. Disengaging ourselves from an analysis of the economic advisability of such a decision, it can be stated that it can largely depend on the future political situation in the Russian leadership...

Dilemmas Facing Russia's Tajik Policy Viewed

954F0817A Moscow NOVAYA YEZHEDNEVNAYA GAZETA in Russian 30 Dec 94 p 2

[Article by S. Belokurov and A. Shinkin: "The Bermuda Triangle of Tajikistan. Can the Russian Ship of State Navigate It Successfully?"]

[FBIS Translated Text] **The republic presidential elections brought about substantive changes in the distribution of forces determining the situation in Tajikistan. No matter what, they did create legitimate authority, bringing conditions for further consolidation of the new state order. Moreover, the draft of the new constitution, which envisages a presidential form of government, received the support of the population.**

Now it is possible to question the results of the elections and their democratic quality as much as one wants. But the fact that Emomali Rakhmonov is a nationally elected president is a fact.

This is specifically what places the opposition under completely different conditions. Its political demands: establishment of a transitional period and creation of a temporary government of neutral figures, would hardly be appropriate in the situation that has been created. The opposition will apparently have to change its behavior and tactics. In essence it faces the choice of striving for its return to the country and participation in parliamentary elections planned for February of next year through negotiations, or engaging in a war until a victorious conclusion.

Probably the most unexpected outcome of the recent elections has been the appearance of a new political force in Tajikistan in the person of the second candidate to the post of president, Abdumalik Abdulladzhanov. The point here is not so much the party of national unity and justice which is being created by him and his followers, whose goal is the formation of a unified platform to consolidate the nation and rally around common human values. Today that is nothing new. Something else is important. As indicated by the results of the election, Abdulladzhanov proved to be not just an alternate presidential candidate but an influential politician whose aspirations, for better or worse, are shared by a third of the population in the republic. At the same time two strategic regions such as Leninabad Oblast (a bridge between Dushanbe and Tashkent) and Gornyy Badakhshan (a bridge between Dushanbe and the opposition), clearly would have preferred seeing him as the head of state. In this manner the situation in the republic after the elections is being determined by three political forces: President Emomali Rakhmonov, the opposition, and the new leader Abdumalik Abdulladzhanov.

That triangle involves some very complex and highly contradictory mutual relations. The consensus is that the opposition will not accept either Rakhmonov or Abdulladzhanov. Even though part of it was prepared to start a dialogue with him had he been the election winner. Counting on the ability of Abdulladzhanov to find compromises, many in the republic were hoping that talk in a common language would start with the opposition.

Mutual relations between Rakhmonov and Abdulladzhanov also cannot be called friendly, or even businesslike. They abstain from public criticism of each other. Nevertheless, the president does not allow his competitor to take part in selections to leading posts in Dushanbe.

Russian policy would clearly prefer to be dealing with Rakhmonov's administration in this triangle of influential forces. Today there is one highly convincing reason for that: Tajikistan is the last bulwark against the advance of political Islam, with its threat of "fundamentalization" of not only republics of Central Asia but of the 20-million strong Muslim population of Russia.

How will events unfold in the future? Presently there is a chance for a changeover from military opposition in Tajikistan to peaceful tracks, when everyone makes peace with everyone else. Emomali Rakhmonov, now the legitimate president, could remove his entourage from posts in Dushanbe and invite representatives of various regions as well as representatives of the moderate opposition to fill them. That would make it possible to soften the ambitions of regional leaders along with their separatist tendencies, at the same time bringing national harmony closer. That would undoubtedly help restore the structure of authority in the republic and finally allow the initiation of economic reforms. While parliamentary elections could grant this process a more stable character.

Judging by who he appointed prime minister, Emomali Rakhmonov provides grounds for such a prediction. The new chief of the Cabinet of Ministers, Dzhamkhed Karimov, is known as a neutral and a sober-minded individual. A doctor of economic sciences, he was chief counselor to the head of state. In addition, Karimov is a native of Leninabad Oblast, which makes it possible to regard his appointment as the first step by the president toward compromise and a search for new political figures.

That is the most preferable alternative. In the opinion of most observers, however, it is an unlikely one. The pressure of his immediate entourage on Rakhmonov is well known. His fellow-townsmen from Kulyab, having firmly seized power, are not about to share it with anyone. On the contrary they will strive to strengthen their position and attempt to gain control over the entire territory of Tajikistan. The most weighty argument in debates with opponents will be the Kalashnikov submachine gun.

The development of events along those lines does not augur well either for the nationally elected president or for Russian policy.

Rakhmonov's regime will encounter not only military-political opposition, led by the Islamic movement

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Revival of Tajikistan, but also regional opposition, which is already quite strong in Gornyy Badakhshan, Leninabad Oblast, the Garm group of rayons, and Gissar. It is possible that it too will amalgamate its efforts.

Military-political opposition, naturally, will respond to force with force. After the winter period, in May-June of next year, one should expect activation of its combat operations, primarily in the Garm group of rayons. It will also attempt to take control of the strategically important Khoburobot pass, while intensifying operations of military detachments in the Kulyab direction. The military confrontation will cause more headaches for Russian diplomacy, whereas Russian military personnel in Tajikistan will encounter something more serious. Border security units and army subunits will be drawn into military operations on the side of official Dushanbe, which will immediately heat up anti-Russian moods.

Even today, for instance, the participation of border security forces in the liquidation of underground ammunition dumps and food supplies of the opposition and a number of "illegal operations" initiated by them have led to hostile actions against them by the population.

It is not necessary to speak of the reaction of the population in case of an open clash between Russian military personnel and detachments of the opposition. The example of Chechen, we believe, gives a good indication of what might follow.

Proponents of a forceful resolution of the inter-Tajik conflict are wrong in hoping for a quick victory. One cannot count on that. The opposition is not yet powerful enough to win, but it is not so weak that it will allow itself to be suppressed. All the more since the Tajik-Afghan border, despite titanic efforts by Andrey Nikolayev, commander of border forces of Russia, in the opinion of specialists, still represents a porous barrier through which detachments of the opposition will be supplied with weapons. It is simply impossible to secure it in the foreseeable future.

All one has to do is take a broader look at the role played by Russian policy in the inter-Tajik conflict to understand that it is facing formidable difficulties involving another triangle of forces which is guided by interests of Islamic fundamentalism in Russia, or more precisely, political Islam and the United States.

Even though the foundation of political Islam was laid many centuries ago, as a contemporary movement it appeared in the twenties and forties of this century. Initially it was a peculiar reaction to the colonial policy of the West in Muslim countries and bore an anti-Western character.

Despite its anticommunism, many movements of political Islam had a sympathetic attitude toward the former Soviet Union and considered their enemy to be primarily the United States and Israel. Over the past 15 years, however, the attitude toward Russia began changing not in the best direction. Authority in the Muslim world was undermined by the introduction of Soviet forces in Afghanistan.

Tajikistan became the second country where relations between Russia and the Muslim world are being tested. In a scenario involving a prolonged conflict, its image as an anti-Muslim country may become a well-entrenched one.

At the same time, the United States is using every possibility in order to demonstrate its friendship with the Muslim world. It has excellent relations with Saudi Arabia, which, by the way, is where Islamic fundamentalism was born and exists in its pure form. One must assume that the fact that it took the side of the Muslims in the Bosnian crisis is not accidental.

All of this poses the threat that the attention of radical forces of political Islam will shift from the West to Russia. Then their actions will move from the Middle and Near East to the region of Central Asia and the Caucasus.

The recent admission by General Dudayev that Islamic fundamentalists from Afghanistan and the Near East are taking part in the defense of Groznyy and the open appeal by Saudi Arabia to the Muslim world to unite in the defense of those of the same faith in Chechnya, one must assume, are the initial phases of such a trend.

Therefore at the present time the question appears to be as follows: Will Moscow be able to avoid the Afghanistan mistake in Tajikistan and navigate through its predictable triangles of opposing forces with success?

"To navigate" certainly does not mean to abandon Tajikistan. One must say frankly that Russia has interests here of both an economic and geopolitical nature. It is certainly not indifferent to who controls the exploitation of strategic reserves of rare-earth metals in the republic and influences the policy of countries in Central Asia. If it should take part in the construction of the Dushanbe—Gornyy Badakhshan—Islamabad road, plans for which are being prepared, Russia will gain an outlet to the Indian Ocean while strengthening its presence in Central Asia.

By the way, up to now Russia's right to be present in the country is being recognized not only by official Dushanbe but by the opposition as well. In the view of a number of experts, Russia must change the rules of the game in the Tajikistan policy as soon as possible. Taking into consideration the assistance it provides in the republic, it must behave not as an adviser but as a senior partner.

A new mechanism is also needed for realization of Russian policy in that region. A commission of the type that was created after the tragedy that occurred at the 12th border post of the Moscow Detachment last year demonstrated the completely untenable manner in which that question is being handled. As indicated by experience, it would be feasible to establish the post of special representative of the president of Russia in Tajikistan for that purpose.

All subunits of agencies that participate in the resolution of the inter-Tajik conflict would be subordinated to him, and a unified headquarters would be created under him which would coordinate the actions of Russian border forces and army subunits deployed in Tajikistan.

It is also no less important for a special representative of the president to have the authority to conduct direct negotiations not only with the Dushanbe authorities but with all forces involved in the conflict, including the military-political opposition and major Afghan field commanders, since without stabilization of the situation on the Afghan side it is difficult to expect any peace in Tajikistan. It is time for broader economic and political cooperation with various structures of Imam Aga Khan IV, the world leader of the Ismailis, whose influence is widely acknowledged in Muslim and European countries.

In our opinion such a system could become a reliable mechanism for the conduct of Russian policy which would defend the interests not of agencies or their individual representatives, but the interests of Russia.

So far, however, many experts are compelled to point out that Russian policy in Tajikistan is losing more than it is gaining.

Deputy Foreign Minister on CIS Integration

954F0809A Moscow SEGODNYA in Russian 30 Dec 94 p 4

[Article by Igor Ivanov, first deputy minister of foreign affairs of the Russian Federation: "Under the Heel of National Egoisms: The CIS Three Years Later"]

[FBIS Translated Text]

Integration

After three years of the Commonwealth's existence, the question as to whether the CIS should exist or not no longer arises. Although the fear of falling under "Moscow's heel" continues in some capitals, the objective necessity for the close integration of the former republics of the USSR is realized and recognized by the greater part of the people and political forces, including Russia.

Differences have come to the foreground today, rather, in approaches to the methods and pace of coming together. Some Russian economists, for example, proceeding exclusively from a consideration of the economic and political situation today, view integration in the CIS as a burden for Russia. In their opinion, it is necessary to get on our own feet, and then look to get closer with others. Meanwhile, the political, military, and strictly economic interests of Russia as applied to tomorrow are disregarded. In turn, the consumer attitude toward cooperation among other partners of ours, plus the difference in the pace and scale of reforms in the Commonwealth states, leads to the fact that either hundreds of agreements are not working at all, or they are working with difficulty, satisfying no one. From this comes another extreme: calls for the immediate transformation of the CIS into a confederative organization with a new supranational center.

The dismal experience of the joint past prompts a rejection of simple solutions. The truth, most likely, lies on the path of a gradual, step by step, rapprochement of the CIS countries in all spheres. What could the principles of such rapprochement be like? First—and primary—is **voluntariness.** Each state should determine for itself the pace and scale of its own integration into the Commonwealth system. Naturally, Russia also has the right to decide when, with whom, and under what conditions to unite. A different speed of approach makes it possible to take into account the interests of partners: without rejecting those who reserve special positions, and to move along the path of intensifying integration with states that are ready for closer cooperation.

Second—**the formation of an entirely integrated Commonwealth structure.** In the period of its chairmanship in the organs of the Commonwealth, Russia did everything to coordinate the positions of its members on the question of giving them broader powers, right up to the adoption of binding decisions. In Russia's opinion, the key role in this process should be played by the legislative organs of the member states: Only they can grant a legal basis of compatibility. It is advisable to gradually transform the International Assembly into a kind of CIS parliament. For a start—sign a constituent treaty or a multilateral convention about the place, role, and status of the International Assembly.

Third—**economic cooperation.** This is still the weak spot in integration. But to overcome the general crisis, energetic joint efforts are necessary precisely in economic construction and in the social sphere. The governments of the CIS countries arrange economic ties both along the line of bilateral relations and within the framework of the Commonwealth. A common strategic policy for the development and consolidation of economic integration within the CIS framework is coordinated and implemented in the form of an Economic Union. Its treaty formulation occurred at the Moscow meeting of heads of state and government in September 1993.

The treaty on the creation of an Economic Union is of a framework nature. Placed as the basis of the concept of the union is the idea of forming a closely integrated association that encompasses trade relations, production cooperation, and financial relations. The task is undertaken to establish the kind of socially oriented market economy structure that will help its members overcome the crisis: to achieve economic growth and gradually to integrate into the world economy.

It is proposed to implement the structure of the Economic Union in stages. The first stage—a free trade zone, removal of customs restrictions, and the formation of a Customs Union with the establishment of a common customs tariff with respect to third countries and the coordination of foreign trade policy. Simultaneously, the formation of a Payments Union. The next stage—a common market, transition to which is supported by legal, economic, and organizational conditions for the free movement of commodities, capital, services, and manpower. Finally, the concluding stage—a Monetary Union that requires the conduct of a unified budget, tax, money-credit, and monetary policy.

Last October the heads of CIS states signed the Agreement on the Creation of an Interstate Economic Committee (MEK). This is the first organ of the CIS that has been given the right to adopt compulsory decisions on a coordinated range of questions. Within its jurisdiction are the elaboration of joint programs on the development of industry, agriculture, and other branches of the economy, monitoring the implementation of obligations assumed by the countries, and assistance in structural reforms. In the channel of implementation of the Treaty on the Economic Union, the October council of the heads of CIS states also adopted the Agreement on the Creation of a Payments Union. It is called on to ensure the continuity of financial accounts on the basis of the mutual convertibility of national currencies. The establishment of a single currency rate of exchange is envisioned for foreign economic operations. For the purpose of resolving nonpayments problems, a bill of exchange and multilateral clearing is introduced.

The memorandum concerning the basic directions and the prospective plan for the integrated development of the Commonwealth, in fact, as noted by B.N. Yeltsin, finalizes the discussion about whether integration is necessary. The question now is only about the form of integration and the degree to which it can be promoted, and which one the members of the Commonwealth are willing to support.

Fourth—**cooperation in the military-political sphere.** The creation of an Economic Union dictates the need for open internal borders between its members, which in turn requires reliable joint protection of CIS borders with third countries. Such an approach, given the condition of the future development of economic and political integration, also makes it possible to remove problems of interstate relations and ensure economic use of material resources. The Treaty on Collective Security, which unites the nine members of the Commonwealth and went into force in April 1994, could be the foundation of integration in a military-political direction. Its members pledge to refrain from use of force or threat of force in interstate relations, not to enter into military alliances and not to take part in any kind of groups of states or in actions directed against another member state, to coordinate steps in the event of the emergence of a military threat, and to render military assistance to any treaty member who is subjected to aggression. At the same time, aggression against one treaty member will be considered aggression against all treaty members. The treaty is open to all interested states that share its objectives and principles.

Fifth—**collective peacekeeping.** It plays a special role in military and political cooperation within the scope of the CIS, inasmuch as conflicts in this vast space expose to threat not only the interests of the democratic development of the Commonwealth states and regional stability, but at times international peace as well. The CIS states, in close cooperation with the United Nations and the CSCE, have already acquired some experience in the sphere of peacekeeping. Military actions have ceased in South Ossetia, the Dniester Region, Abkhazia, and Nagornyy Karabakh. The sides have entered into a dialogue on questions of a political settlement. It was possible to achieve an agreement in Tajikistan on a temporary cease-fire. The reality of peacekeeping activity on CIS territory is such that the main burden of these efforts falls to Russia. Its involvement is conditioned both by Moscow's understanding of the responsibility that it bears, together with its neighbors, for the support of peace and stability in this geopolitical space, as well as by economic reasons.

The CIS states are interested in intensifying practical cooperation with international organizations, in particular with the United Nations and the CSCE. Objective support of the peacekeeping forces of Russia and its neighbors could realistically help a more effective settlement of disputes. The CIS supports this, proposing that the United Nations and the CSCE to cooperate in peacekeeping operations in the countries of the Commonwealth in various forms.

Sixth—**cooperation in guaranteeing human rights.** This is the sphere in which the citizens of the Commonwealth states most acutely feel the achievements and defects of integration. The approved documents consolidate the obligations of CIS states to guarantee their citizens equal rights and freedoms regardless of nationality and other differences. However, reality leaves a lot more to be desired. There is a need for additional measures to guarantee the legal and social protection of various groups of the population, and implementation to the full extent of already approved multilateral and bilateral agreements.

The main element of the system of legal protection is evident in the CIS Convention on Human Rights, a resolution on the elaboration and signing of which was approved by the heads of state in September 1993. The signing of the convention would consolidate guarantees of compliance with universally recognized norms of international law in this sphere, and would make it possible to join in the work of the Commonwealth Commission on Human Rights. This is yet another opportunity for Russia to prevent infringement of the rights of countrymen abroad. Here we see the basic task to be to assist the adaptation of the multimillion mass of people of Russian extraction to the new political and socioeconomic realities in the countries of their permanent residence.

It is for these purposes that Russia persistently speaks for the development of humanitarian cooperation, cultural exchanges, cooperation in the spheres of science, education, and sports, and why it is striving for the creation of an appropriate coordination organization in the structure of the charter organs of the CIS.

Seventh—**coordination of actions in the international sphere.** Opportunities and the desire to work out a unified approach to a number of problems and a common policy in international and regional organizations have become apparent of late.

All the states of the Commonwealth are members of the United Nations and the Conference on Security and Cooperation in Europe. In March 1994 the CIS received the status of observer at the United Nations General Assembly.

In light of the results of the Budapest summit of the CSCE, cooperation between the CIS and this organization takes on great significance, including on questions of strengthening security and stability in the North Atlantic and Eurasian regions. Commonwealth contacts are being arranged in the European Union, the European Communities Commission, and other international organizations.

The proposed general principles and directions of integration could promote the liberation of the Commonwealth from under the heels of the selfish interests and national egoisms of its members, and this means the prospective building of a viable and effective interstate regional organization that guarantees the stable political and economic development of all its members.

Economic Issues

Calls To Prevent Further Soil Fertility Decline Aired

Financial Constraints Keep Fertilizer From Fields

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[Article by A. Postnikov, corresponding member of the Russian Academy of Agricultural Sciences, and A. Kondratenko, chief specialist of the Glavkhimzashchity (Chemical Protection Main Administration) of the Russian Ministry of Agriculture and Food: "Stop the Decline in Soil Fertility"]

[FBIS Translated Text] **The year is coming to a conclusion for agriculture, and preliminary results can already be summed up. Unfortunately, they are not auspicious, and the predictions we ventured to make in this weekly last spring, alas, have been proved correct to a large extent. As opposed to the level reached, the use of mineral fertilizers has been cut back to one-tenth as much. As a result of the failure to maintain parity in prices for industrial and agricultural output, it has become unprofitable to apply fertilizers and obtain high crop yields.**

Agricultural commodity producers were able to buy only 1.5 million metric tons of the 10 million metric tons of mineral fertilizers requested. This amounted to only 12 kilograms per hectare of arable land, but this is being counted in grams per hectare in Saratov, Penza, Volgograd, Kurgan, Orenburg, Omsk, and Chita Oblasts and Altay Kray.

At the same time, the use of organic and lime fertilizers has been reduced to one-fourth to one-fifth as much. The volumes of liquid top dressing for wheat plantings to ensure that grain is of the highest quality were reduced from 5 million hectares to 300,000 hectares. While more than 10 million metric tons of the hardy and valuable grain were procured five or six years ago, there is practically none this year. Bread will be more expensive, and it will be of lower quality. As a result of the decline in fertility, Russia's agriculture failed to receive 20 million metric tons of grain, 14 million metric tons of sugar beets, and many potatoes and vegetables, and livestock will be half-starved during their wintering.

There will be no famine in Russia, of course, but one need not be a Solomon to figure out that meat production will be cut back by 12 to 15 kilograms per capita and the production of dairy products will be reduced by 100 to 120 kilograms per capita. More than half of Russia's families will not be able to have a dinner with meat even once a week. This will hit the children and the elderly the hardest. From all accounts, life expectancy will decrease.

The fact that in 1993 and 1994 the comprehensive state program to increase soil fertility failed in all indicators is particularly alarming for the future of agriculture. The principal reason is that the Russian Ministry of Finance, in spite of the law "On Social Development in Rural Areas," transferred financing of the work to radically improve the lands from the republic budget to the local budget, which is so puny that it is not in a position to even patch up the holes in public education and public health.

The process of degradation on the arable lands has begun. For two consecutive years, the amount of nutrients removed from the soil with the harvest and the weeds has been three times higher than the amount added with mineral and organic fertilizers, and substantial acidification of land is being seen in many regions. Because of financial difficulties, the rayon associations of the Agropromkhimiya have sharply reduced the amount of work entailing the application of lime and phosphate fertilizers and the spreading of manure and composts. Many of them are expecting bankruptcy. Specialized equipment is rusting, storage buildings are falling apart, and highly skilled machine operators are leaving for commercial structures.

The situation is no better in agricultural aviation. Many chemical treatment stations have been left ownerless. Storage buildings, solution centers, and takeoff areas are in disuse. The day is not far off when farming will be in almost primitive condition. The lack of an agricultural chemical service will primarily hit the peasant farms, where they have made practically no improvement in their lands.

But after all, it was not so long ago that more than 300,000 experienced specialists were employed in Agropromkhimiya enterprises, they were provided with tens of thousands of motor vehicles, tractors, and specialized equipment, and there were railside storage areas in use for millions of metric tons of mineral fertilizers. They performed all the work involved in receiving fertilizers from chemical combines and in delivering them to the farms, and in applying lime and phosphate to the soils. They also performed most of the work involved in hauling out and spreading organic and mineral fertilizers.

In accordance with experience in developed countries, it was assumed that the suppliers of mineral fertilizers and rural commodity producers would participate in the conversion to shareholding of the Agropromkhimiya rayon associations. However, this was not done. Without orders for operations to improve soil fertility, agricultural chemical workers are looking for other work on the side, and they may be lost to agriculture forever.

The chemical combines, and this has now become apparent, are interested in taking part in the conversion to shareholding of the rayon associations. There is no doubt that this is where the future lies. But today, those enterprises that are shipping fertilizers to Agropromkhimiya reserve bases and railside storage points for responsible storage without prepayment are doing the correct thing. This enables them to avoid the mistakes of last year, when the chemical enterprises were unable to meet the sudden demand for fertilizers in April and May but sent the workers on unpaid leaves in October.

As we know, fertilizers and pesticides that are not stored under the proper conditions turn into a critical factor in environmental pollution. In order to create a material and technical base for chemical treatment in the countryside, both state capital investments and attraction of funds from chemical enterprises, the Agropromkhimiya, and land users are needed. This is why it is important to maintain everything that was done in preceding decades.

This year, the chemical enterprises made use of only one-third of their production capacities, and those were mainly to ship fertilizers to other countries. Industrial production of lime fertilizers and powdered phosphate and machinery to apply fertilizers and plant protection agents has been practically curtailed. Not only the military industrial complex, but the fertility industry, is being deliberately ruined.

Every kilogram of mineral fertilizers makes it possible to obtain an additional 5 to 7 kilograms of grain, as we know. American scientists believe that no less than half the crop in the United States is harvested through the use of fertilizers. Can we really call this a market economy when we sell fertilizers at cut-rate prices to other countries and purchase grain there at world prices?

Perhaps the foreign grain is cheaper? Not at all. This year the Russian farmer was only promised R160,000 for a metric ton of grain, but the American farmer has already been paid $100 (twice as much!). Plus the cost of transporting it across the ocean. By obtaining manufactured products at world prices, the peasant has the right to demand the same price for his labor.

I would also like to point out that agriculture not only provides the public with foodstuffs, but gives work to tens of millions of industrial workers in metallurgy and machinebuilding, the chemical and power engineering industries, the raw material sectors, and transportation. By purchasing products abroad, we are giving work for their farmer, worker, and president. It was not without purpose that the American secretary of agriculture made a quick flight here in the fall as soon as he heard that Russia may be able to manage with its own grain.

At present, the cost of agricultural products increases by three or four times as much on the way from the field to the store counter. It is very advantageous to someone that our products become noncompetitive, although they are not comparable in quality with the beautifully packaged substitutes from overseas.

There is a great deal of talk about nonpayments today. We all buy food products every day, and they do not throw us into debt. So why has the countryside not received money yet for the products that each one of us has paid for and eaten for so long? Naturally, because they lack money, the agricultural producers have been in debt to industrial enterprises, and those enterprises have been in debt to the power engineering workers, the miners, and the railroad workers. Who is interested in seeing that inflation depreciates the results of our labor? Obviously, those who offer extortionate loans. If you take a ruble, give back three. Credit rates account for more than half of the outlays in an item's production cost. It is even more absurd to issue credits to carry out operations financed through the budget. In this case, two out of three rubles received from taxpayers end up in the bankers' pockets. We wonder where they acquired the initial capital and whether these are not the savings that we recorded in our savings bank books at one time.

In order to break this vicious circle, the Russian Ministry of Agriculture and Food and the Roskomkhimneftepron [Russian Federation Committee on the Chemical and Petrochemical Industry] have proposed the introduction of bank drafts in the amount of the funds for mineral fertilizers for all participants in the production cycle, including the raw material suppliers, power engineering workers, and railroad workers. But these proposals have been firmly tied up in the Russian Ministry of Economics and Ministry of Finance. But time will not wait. After all, the country has found itself thrown back to a quarter century ago in the use of mineral fertilizers. If we continue on like this, we will soon reach what was once a favorite reference point for economists—1913. During those distant times, Russia produced two-thirds as much grain per capita, but it sold it to Germany, where they used it to feed the pigs.

Only state regulation of prices for mineral fertilizers, which is being done in most of the world's developed countries and which was the case in our country quite recently, will make it possible to promote their use, and hence to increase the production of agricultural items. State subsidies to acquire mineral fertilizers should not be circulated in commercial banks, but be assigned to an address—the chemical enterprises that are the suppliers. The amount of these subsidies should stimulate the use of fertilizers.

Financing of operations to treat the soils with lime and phosphates, even in the Nonchernozem Zone and the Far East, must be returned to the federal budget and accomplished by target-oriented deductions from the indexed payment for land. While the Fertility program is a state program, there should be a state order for lime fertilizers and powdered phosphate and agrochemical operations in order to implement it.

The administration heads of 20 regions have asked President B. Yeltsin to restore federal financing of operations to increase soil fertility. The open letter to the president from agricultural chemists and scientists in the Russian Academy of Agricultural Sciences mentions the critical state of affairs with respect to soil fertility. But there have been no decisions yet.

Fertilizer Use in Russia

Average Per year	1971-1975	1986-1990	1991-1993	1994 (Fertility program)	Actual use
Organic fertilizers, in millions of metric tons	286	482	288	504	147
Mineral fertilizers, in millions of metric tons d.v. [expansion not determined]	6	13	8	12	1.5
Lime application, in millions of hectares	3.6	5.1	3.7	6.1	1.9
Phosphate application, in millions of hectares	—	1.9	1.5	2.4	0.3

Fertilizer Impact on Grain Crops

954E0372B Moscow SELSKAYA ZHIZN in Russian 22 Dec 94 pp 1-2

[Article by SELSKAYA ZHIZN Volgograd Oblast correspondent Valeriy Savelyev: "There Is No Bad Land"]

[FBIS Translated Text] **"I often hear the first people in our state blame either the land for its infertility or the climate for its destructive irregularity over a long period of time. As if to soften these complaints, some persons refer to a specific law. The land, in their opinion, which is worn out and exhausted from the sumptuous harvests of the old days, cannot provide nourishment for the people with its previous generosity. I am certain that these reasons are far from true. It is profane to think that nature, which was endowed by the father of the world with eternal fertility, has been overtaken by infertility like a kind of illness, and a sensible person will not believe that the land, which acquired divine and eternal youth and is named the universal mother, because it gives birth to everything and will continue to do so, has grown old like a person."**

Excuse the lengthy quotation. This is from Lucius Junius Moderatus—Columella—an economic thinker of ancient Rome. It turns out that 2,000 years ago there were already skeptics who denied the land's "eternal youth." Imagine how many there are now. Although experience over the past 20 centuries confirms Columella's proud conclusion and the truth of a popular saying reflected in our title: "There is no bad land, just bad managers." Fortunately, perhaps, or perhaps not, but the fate of the land inherited from past generations depends only on man now.

I spoke about the forthcoming field work with I. Shalukhin, chief of the Dubovskiy Rayon Agricultural Administration. He had his hands full with worries at that time, but Ivan Ivanovich mentioned one of his principal concerns with a sigh: There should be supplementary feeding for the winter....

There are also other places on the Volga and Don steppes where we could point a finger, where mineral fertilizer ought to be applied in the spring, particularly to sustain the rye and wheat weakened after a severe winter. Vegetables cannot be managed, and there are a number of other crops there—corn, industrial and feed crops, and in general, all the improved land where fertilizers are almost the first condition because of the large amount of nutrients taken out with the harvest.

There were times when residents of Saratov, Volgograd, and Astrakhan used tens of thousands of metric tons of mineral fertilizer in an active agent every year. They demanded one thing from the plants and Selkhozkhimiya—give it to us! But now during the spring, even large farms where they had metric tons of 300 fertilizers, agronomists have been dividing them up in small paper bags. It is too expensive! But the "economizing" turns out badly. The Volga workers harvested millions of metric tons of wheat in 1993, but with respect to quality, it was a close planting.

Now the grain yields are smaller, and conformity to the principle characteristic of a dry period should apply: The fewer the quintals, the higher the percentage of gluten, that is, quality grain. It has become apparent, but not very. While the Volga region and the south have good grain, it is mainly the valuable wheat. For the hardy wheat, several batches have been delayed. Without nitrogen, the light chestnut soils do not produce the raw albumin; this is the reason for the decline in baking qualities, and consequently the purchase price. Petr Yunyayev, the deputy governor of Volgograd, reproached the grain growers one day: You are producing the gross output, but you have to buy more wheat, because you do not always have enough before the new grain crop.

We do not have to speak about the farmers. Most of them are not acquiring the habit of using fertilizers. Especially those who went to siftings last year and this year. These persons are simply doomed to "economizing," inasmuch as the line for first-rate acquisitions of fertilizer is far behind the ones for seeds, equipment, fuel, and so forth.

One need not be an important specialist to foresee the sad nature of what lies ahead. In the period before the reform, the land obtained full doses of fertilizers, which were sufficient to shape the harvests of 1992, 1993, and part of 1994. Except for the current one, the seasons were favorable, and hence, ears of full weight took many thousands of metric tons of nutrients from the plowed fields, and the supply of nutrients is not being restored by new fertilizer applications at all. What is the result? Lenin called this "capitalist plunder of the soil." It seems that in this respect we have already become capitalists.

Our geoeconomic consciousness, oriented toward spaciousness, is obviously having an effect on our attitude toward fertility of the land. If there are no fertilizers, that is all right! Siberia will come forth with a harvest, and the Kuban will add more grain. Were the winter crops poor in the Volga region? We still have the Urals and the spring crops from the Chernozem regions of the European part of the country. Indeed, Russia has enough land, generally speaking.

So we are fooling ourselves. But after all, we ought to be taking something else into account as well. A large part of this land is not being utilized in agriculture because of the severity of the climate, mainly because of the lack of heat and moisture. There are various ravines and hillsides where livestock can be pastured, but grain cannot be sown there. So there is no reason to brag about the open spaces. We should not indulge in a condescending smile because of the lack of humus which has been observed everywhere lately, but feel our hair stand on end in fear of the future.

It would seem that one glance at a soil map of Russia would be enough to compel us to organize the chemical industry to operate efficiently. The land must be nourished! A region where cereals are grown which has amounts of humus that are more or less acceptable is scarce. There are not enough phosphates, nitrogen, and potassium in 96 percent of the land areas, and as we know, they are part of all or the most important albuminous compounds stored in plants. Including nucleic acids, cell nucleus albumins, enzymes, and vitamins.

For this reason, two bundles of wheat lying next to each other may be of different value. The mills are very interested in one bundle, taken from a field well-treated with fertilizer. As hardy or valuable grain. The grain in the other bundle, threshed in the field, where they only sowed it and harvested it, is more suitable for fodder. And the regard for it shown by bakers is appropriate. In October, over 28 percent of the wheat with gluten went for R200 per kilo in the Volga region. But the ordinary wheat sold for R70 to R90. Barely. With reluctance and disappointment.

About three years ago, when the countryside was working, but not burning with a blue flame, I was listening to Gennadiy Borodin, chairman of the Volgograd Oblast Selkhozkhimiya, at a conference. In comparing the schedules for buying mineral fertilizers, he reasonably superimposed them on the quality features of the grain yields. A farmer sitting next to me said in a low voice: Look how he has started asking for wheat when it has become "sour".... The remark was correct with respect to the disastrous situation in Selkhozkhimiya, but why the gloating delight?

Indeed, during the stagnation our partners in the countryside did not hesitate to pluck it, like peas next to a road, by registering amounts, simply making money on the side. But as for the Selkhozkhimiya, why overlook the fertilizers ordered which were delivered directly to a sovkhoz storage area? Or the activity of the "fertility detachments" formed in each rayon, which performed a substantial amount of soil conservation work? Improve the work of the system and link it with the end result, a metric ton of grain—this is what was required. So why was it necessary to pull down what was prompted by the vaunted experience in other countries? And did Borodin and dozens of his colleagues not turn out to be right? It is another matter that by inflating prices for mineral fertilizers, by privatizing, by forcing out the rights to unlimited exports, Russian plants have cut the domestic farmers off from their output, ruining their helper Selkhozkhimiya at the same time. This is where the state did not listen with understanding.

Before each sowing, the government promised compensation to rural areas for the higher cost of fertilizers. The last time it was 30 percent of the cost. All right, once they chose this procedure, the farmer borrowed something, but where are those compensations? In the best case, someone received them in the fall or at the end of the year, when the sums were eaten up by inflation. In spring last year, according to Yuliy Besedin, deputy chief of the Belgorod Oblast Agricultural Administration, the oblast should have R689 million for fertilizers through these compensations. The sowing proceeded, but there was no money. They obtained it, apparently, and it appeared once again in the accounts of industrial enterprises, commercial structures, and others, but not for the countryside.

Once again, the plowman turned out to be in dire straits. And so was the grain. Regardless of the year, it never occurred to the so-called reformers to help their own breadwinner. Well, once or twice we were wrong when we were young, but today stupidity is already rooted in the system. So you will think when you look at what has been created by the unruly Russian democracy which is now running the country: What has sprouted under its nose has not been sown in its head.

In May last year, nearly everyone spoke at the large national conference in Volgograd on the critical state of land fertility. Academician A. Kashtanov mentioned the lack of economic incentive to increase fertility among the reasons for the decline in gross grain yields. The introduction of scientific systems has been suspended because of this, since on the other hand, the use of land resources must be put in basic order before they can be mastered. In November 1992, the government issued a decree on soil fertility and territories adopted their programs on this basis, but everything faded away without the finances.

Incidentally, Academician N. Krasnoshchekov estimated the cost of programs to preserve Russia's land at

R50 billion a couple of years ago and at R3 trillion one year ago. How much will it be next year? And what will be in the accounts of the cooperatives, the AO's and TOO's [joint-stock companies and limited partnerships], the farmers of today, when the time comes to count the fat financial chickens? Zero integers and tenths, which is what horseradish in the garden is called. There have been proposals to form nonbudget funds through special taxes on the cities to maintain the land. It is possible that this makes sense, but this tax on the banks and the various notary and other offices there must be specific. It means more from them than any others, and here is the official act: If you waste the land, pay for it!

You will recall that former minister V. Khlystun expressed his disagreement with persons who considered aid for rural areas unnecessary. When money is not given for fertilizers, they did not obtain enough grain, and it had to be imported. Is this better?

Representatives from all corners of Russia provided their calculations demonstrating the fallacy of "economizing" in fertilizers. V. Pozhilov, director of the Lower Volga NIISKh [Agricultural Scientific Research Institute], recalled that in 1992, for example, the amount of nutrients taken out in the region amounted to 98 kilograms per hectare, but they managed to make up only 21 kilograms by adding fertilizers. This shortage is plunder of the soil. However, for the current legitimate leaders, it has enough juices for life. Thoughtlessly draining the fertility will also affect the rest of the people who are about 50 today, let us say. But why are we conducting ourselves so shamefully with respect to our children and grandchildren? What moral right do we have? In the West, fallow land and waste ground are on the increase, and they pay the farmers for the "idle" land—let it rest and save its strength for the time being. Here we take away the last juices—two of them. Squandering is an action which a fool can handle. Growing takes a great deal of brains and time. Nature forms a centimeter of humus in 100 to 200 years, some places even longer. This is the kind of work we are preparing for our descendants.

It is a pity that we are not doing what we can do. We recall that under Gorbachev we set about developing intensive technologies in raising grain crops. At that time I was working in the virgin lands of Kazakhstan, and I had occasion to hear the personal instructions given by the general secretary-combine operator.

He agrees: As in any campaign, they brought a large amount of weeds in the drive for a large grain harvest, but the benefit was substantial. Special fields were set aside to conduct a test where they provided everything that was the best and essential in technology. The first forerunners after fallow land under conditions in Northern Kazakhstan produced up to 30 quintals of superior wheat per hectare. Among the other elements of the increased demand for agricultural technology on intensive fields were full fertilizer doses for the entire crop rotation, plus start-up additions in small rows at the same time as the planting.

And this was not only in Kazakhstan. According to data from the Russian Federation Ministry of Agriculture and Food for the 1986-1990 period, a hectare of Russian plantings received 99 kilograms of chemical fertilizers. An entire system of operations was behind this figure. But the figure was 29 for all of last year. The situation in Russia's grain-growing regions was even worse: Orenburg, Saratov, Omsk, Volgograd, and Novosibirsk Oblasts and Altay Kray are all applying the same amount—3 kilograms per hectare. Rostov broke away somehow and applied 15 kilograms. After the current freeze and soaking of the winter crops, the amount of top dressing should be sharply increased. Nothing of the kind. The Rostov farmers applied 100 grams, the Omsk farmers applied 200 grams, and the rest used very little—dust from the bags.

Everyone knew that a kilo of fertilizers is repaid by 4 kilograms of winter wheat. The figure is no less for spring crops. Barley and oats provide an even greater increase. Take into account the metric tons of fertilizers applied and multiply them by our vast spaces.... But previously they also added on prices for wheat and fertilizers: kilogram for kilogram in accordance with the cost. The advantage was evident. Now the ratio of agronomic gain has even been left at the minimum: 1 to 4. But then, economically the increase in crop yield does not cover even the soaring cost of mineral fertilizer. No, think it over: It is not to our advantage to obtain an increase of 4 kilos of grain! But when the level of agricultural technology is good, all 10 to 12 kilograms of wheat will be obtained from the same ammonium phosphate fertilizer. Not a bad market!

Under these circumstances, who will be thinking about intensive technologies? Maybe some miracle worker will be found. The procedures are different in our market—buy, sow, and harvest. I have noted how the land abundant with harvests has been sent off to auction like an old horse to the slaughterhouse. The authorities will not look into this; it will be a long time, because intensification has an objective principle: First invest rubles and sweat, and later on, perhaps, in a matter of years, you will get a return. The state is not indulging the zealous manager in this matter. On the contrary, it is making him pay through the nose with the taxes, the disparity in prices, and various value-added taxes: You must not interfere; it is better to trade in the land over there....

Labor Minister on Unemployment, Tax Reform

954F0832A Moscow OBSHCHAYA GAZETA in Russian 29 Dec 94 p 5

[Article by RF Minister of Labor Gennadiy Melikyan: "We Drowned Together, We Swim Out One by One"]

[FBIS Translated Text] On the eve of the new year I would like to promise something good, but I have to tell the truth: From the social aspect the coming year will be quite strained—perhaps even more difficult than 1994.

Until now we have managed more or less to combine the accomplishment of two tasks: reformation of the national economy and social support for the population. During the first half of this year we even managed to slightly reduce the share of the very poor population. On the whole, after the 1992 slump the growth of money income greatly outstripped the rise in prices, especially in the middle of the year, when it was possible to "suppress" inflation temporarily. However, already in the fall all these social achievements came to naught. In October-November-December with an approximate 15-percent rise in prices wages grew only by 5.

On the whole, money income, nevertheless, continued to rise quite rapidly: In 11 months of this year it outstripped the rise in prices by approximately 19 percent. However, this happened among the "top 20 percent"—approximately one-fifth of the population. But people living mainly on wages again were the losers. For the year as a whole it can be said that "the rich became richer, but the poor did not become poorer." However, this is not enough: The poor must begin to become a little richer.

Alas, I cannot promise that we will achieve such a situation in the coming year. For the process of a general slump is coming to an end in the economy. A revival in production began in the middle of the departing year—at very low rates, but it began! Now the government intends to conduct a much tougher financial policy, with a very negligible support for enterprises, mainly "city-forming ones," on which the entire social structure of the city rests, or which produce some extremely necessary products, which cannot be replaced with imports.

Unemployment will grow—this problem is already in second place in significance. In population surveys, which the All-Union Center for the Study of Public Opinion conducted on 14 most significant problems, quite recently unemployment held third or fourth place after crime and inflation, but now it is already in second place. (Perhaps now, in connection with the new inflation spiral, unemployment has again moved to third place). However, there will be no "avalanche" of unemployment, as there was none during the departing year, despite some forecasts.

Nevertheless, a serious situation is expected. In Russia today there are more than 5 million people who can be considered unemployed according to the classification of the International Labor Organization. For now, however, employment services have registered only 1.5 million unemployed. In Russia approximately 4.8 to 4.9 million people work an incomplete work week (not at their own request, but by order of the administration), or are on forced leave.

Thus, the total potential of present unemployment in Russia is 10 million people (per 70 million workers).

If the presently conceived tough government policy is implemented, it can be expected that approximately 8 million real unemployed will appear in Russia by the end of next year. (I am convinced that softness will aggravate the situation or, at best, will prolong the present crisis). Unemployed—at the expense of present partly employed persons and those "on leave." At the expense of those that will have to be fired in order to pay from the saved funds higher wages to the kept workers. And so forth. In the coal sector during the departing year only 11 unprofitable mines were closed and during the coming year 2.5- to 3-fold more will have to be closed. Hence...

In general, according to my forecasts, the coming year will bring many complications to many enterprises of the fuel and energy complex. In Russia until today the slump in production occurred in virtually all sectors except for the fuel and energy complex. The fuel and energy complex was the most satisfactory. It lost very little in terms of production volumes and hardly any personnel. In electric power engineering the number of people even increased. However, this is a special case, one of the methods of "evading" taxes. On the whole, however, the fuel and energy complex has not yet felt (with the exception of the decline in investments and nonpayments) difficulties of the reform period like all the other sectors. However, in electric power engineering free-and-easy life will end in connection with the fact that it was decided to pursue a tougher tariff policy—the present "tariff licentiousness" will no longer exist. Oil refining and oil producing enterprises will encounter the fact of wear of basic equipment and the shortage of investments for its replacement. And this means dismissal of part of the personnel...

I do not want to say that in the new year it will be more difficult for the fuel and energy complex than for other sectors. However, other sectors have already "gotten into trouble" and somehow have begun to adapt. Some die and some survive. The fuel and energy complex has not yet experienced difficulties in the transition to the market and, therefore, power engineering workers will not have it easy. In other sectors the situation is different. Now there should be no more talk about the division into "promising" and "unpromising" sectors. The new factor in the course of reforms is not that the sector "is falling," but that some enterprises of one sector go up and flourish, while other enterprises "drown," not withstanding the competition.

Concerning wages. In Russia today average wages total 278,000 rubles. According to our calculations, next March they should increase to 310,000 or 320,000 rubles per month. This is partly connected with the planned increase in minimum wages to 34,000 or 54,000 rubles, about which a dispute is now going on in the State Duma. Parliament members propose that the minimum be raised to 54,000, while the government insists on 34,000.

In fact, however, both are extremely insufficient. With such a gap between average and minimum wages the latter cease to be a significant wage regulator and to affect the wage level and, what is no less important, the differentiation. Minimum wages also lose their function of a "protective" social normative.

The government, primarily as personified by representatives of the financial bloc, advocates a negligible increase in the minimum, because the amount of so-called normed wages, which are not taxed as enterprise profit, depends on it. Furthermore, with a significant rise in minimum wages it becomes necessary to increase the rates and salaries of workers in the budget sphere—teachers, physicians, and so forth. These are direct expenditures both at the federal level and in regions. Many benefits, including for children, also depend on minimum wages. These are also expenditures of both the budget and of extrabudgetary funds.

The government now holds such a position, because it has failed during the approval of the law on citizens' taxation in the Duma. As a result, an erroneous, in my opinion, strategy in the population's income and wages is formed for 1995. Taxation on citizens' income is weak and we try to achieve a balance of the population's money income and expenditure through the restraint of the enterprise wage fund, including through a tax on the wage fund at enterprises.

In general, this is a "bad" tax—a very strong press, which keeps wages from rising. Furthermore, a number of social payments—to the pension fund, medical insurance, and social insurance—and a lot of all kinds of regional taxes, that is, for the support of public health, education, and so forth, "are attached" to wages. This also restrains the wage increase. After all, simultaneously with the increase in salaries it is necessary to sharply increase the amounts of payments to budgets and all sorts of funds...

We would like to do the following: To free wages from this press and to raise the minimum—in this way to stimulate an increase in the income of those who live on wages. To raise wages for low-paid workers, "pressing" on them from below through the minimum and, thereby, reducing or at least restraining the increase in the differentiation in wages. At the same time, however, in order not to whip up inflation, individual taxation should be toughened. Thus, the role of wages in the revenue structure would be raised (today wages make up less than one-half of the total revenues) and through higher taxes on the "rich" the present gap between the most highly paid Russians and the most low-paid ones would be reduced. Today this gap has increased to 30-fold and continues to rise!

Unfortunately, all these intentions have failed for now. For a start we planned to increase the nontaxable amount of wages at least to eight minimums—the Duma almost reduced it to four. The tough variant of individual taxation did not pass. Then the substantial increase in the minimum is of no use and, moreover, there will be nowhere to get money for it.

Furthermore, the present system of wage fund taxation forces enterprises to use various tricks in order to pay workers a little more, but to lower official wages. For example, banks show in reports that they pay their workers not too high wages—approximately 700,000 to 800,000 rubles. In fact, however, wages are much higher. The following is one of the methods of bypassing reports and evading taxes: The bank places the worker's wages on deposit at a very high interest—much higher than for the client "from the street." Workers, instead of high wages, receive a high interest on deposits. These amounts are not taxed, contributions to the pension fund are not paid from them, and so forth. This money—pure rent—is not considered income!

Although the entire civilized world encourages **earned income**, and not this kind of income! Proceeding from the fact that a person must live not through his entrepreneurial talent, but through labor. Therefore, in many countries taxation is differentiated: The tax on earned income is smaller and on rent, bigger. However, there is a strong practical counter-argument to the proposal to introduce taxation on income from bank deposits: Even without this the people bring money to various "MMM." And if a tax on deposits is introduced, no one at all will bring money to the bank.

There is some truth in this—we simply are not ready for the introduction of certain civilized taxes. For now, however, it is necessary at least to launch the system of collection of property taxes! Of course, we will not be able to take into account how many nouveaux riches hide gold bullions or diamonds. In practice, however, it is time to tax real estate so that the present "new Russian" may be interested in acquiring new machine tools and in expanding and modernizing his enterprise, not in purchasing a second Rolls-Royce. Not to mention that in America a real fight against members of the Mafia began when the tax police got down to business. It could not "seize" the income of a member of the Mafia, but, comparing his tax declaration (where legal, very modest income was indicated) and his splendid mansion, then and there the police accused him of concealing income: Otherwise, where did he get such expensive real estate?

Alas, in our country for now everything is different. As a result, we encounter paradoxes: For example, on the one hand, today Ivanovo Oblast is a zone of social calamity with mass unemployment and, on the other, for some reason bank deposits rise very sharply here.

How will Russians live in 1995? Workers in the budget sphere—teachers, physicians, and so forth—will live as modestly as today. Although everything is also very relative here—in some places they have become highly paid specialists. For example, on some "prostrate" kolkhoz, where wages do not exceed 60,000 rubles, a teacher with his 200,000 looks quite proper. However, the same worker in the budget sphere looks poor if he lives next to a normally operating enterprise, where even a cleaning woman receives twice as much.

I am confident that in the new year a decision will have to be adopted on an increase in state employees' wages. In fact, this is no longer a payment problem, this is a matter of our statehood. True, there will be a reduction in the size of the apparatus, but the wage fund will not be reduced to the same degree, so that salaries could be raised. I consider foolish the regularly discussed idea that the apparatus should be suppressed and that it is possible to save a great deal on the apparatus. In fact, we have a very poor apparatus and with officials' present wages it is impossible to fight against corruption and to attract skilled people.

In the new year northern territories will have difficulties: Whereas yesterday there was still money for the support of absolutely unprofitable production facilities, every year it will be more and more difficult to find funds for this—because expenses are extremely high at them, but the return is small. Primarily those that will be able to operate profitably will survive. We have already fallen—we can fall no lower. However, everyone that is capable of rising will have to do this quite independently...

Creation of Independent Security Services Deplored

954F0818A Moscow NOVAYA YEZHEDNEVNAYA GAZETA in Russian 29 Dec 94 p 2

[Article by Vladimir Kucherenko under the "Body Guarding" heading: "Maneuvers Invisible to the World: Politicians and Businessmen Continue To Build Personal Armies"]

[FBIS Translated Text] It was only three years ago that democrats from among engineers and MNS's [junior researchers] were demanding that the armed forces be brought under public control. Then democracy won—and on the ruins of the USSR, "private armies" began to rise, unaccountable to our MNS's. And the more the economic crisis rages, the denser become the ranks of these latter-day boyars' and princes' armed squads.

Last week, as if by chance, the expression was put into circulation—"federal troops." Does that mean that now we should expect regional ones too? This no longer sounds unrealistic.

The first to demonstratively set up his own personal army was B. Yeltsin—the Main Protection Directorate, headed by Korzhakov and Barsukov, having merged in it both combat units with heavy armaments and political security units (see "Forays of Personal Armed Squads," NOVAYA YEZHEDNEVNAYA GAZETA, 6 December 1994).

As is known, in the beginning of December these forces were used as a "scare" against the head of the Most Group, Gusinskiy. The press began to talk about a new political regime. IZVESTIYA discovered Korzhakov's letter to Yeltsin, which criticized the plans for liberalizing oil exports. See, the political police are back—the military clique is about to seize power, threatens our freedom!

We also have to see something else, though: numerous "Bonapartes" of lesser caliber forming their armies. And in particular, the aforementioned Gusinskiy and Luzhkov. Uncontrollable by anyone except their own patrons and unrestrained by law.

It was for 2 December, when Korzhakov's boys in black masks blocked Gusinskiy in the mayoralty building, that an emergency muster of all Most units was announced. Our source in the FCS [Federal Counterintelligence Service] told us the muster base: a former Soviet foreign trade association that imported machine-building products. There, by the Kaluzhskaya subway station, is the site of huge warehouses and test sites resembling plant shops. No forces from Yeltsin's Main Protection Directorate or the Russian Federation MVD [Ministry of Internal Affairs] were sent there, though.

What do we know anyway about the Most Group security service, commanded by Mr. V. Gorbachuk? The figure usually mentioned is a force of 50 troops from the KGB system, but people in the know say that this is just the nucleus around which a "volunteer corps" recruited from certain circles may be brought in. Their numbers? If we consider that Gusinskiy's security service actually has its own guard training school, headed by V. Kupriyanov and V. Krasnov—quite large. Because the smallest unit in the Army that has a training facility and a sergeant school is a regiment.

By the way, Gusinskiy's forces (and this is commonly acknowledged) did show their mettle during the days of the October '93 bloodshed. By some information, their then "opponents"—the black combat groups of A. Barkashov's confederates (RNE [Russian National Unity])—have not forgotten this. And now they are carefully tracing the addresses of the Most Group security personnel, their bases, connections, and so on.

And Luzhkov? On 26 December NTV reported that a special military unit will be attached to each of the 10 prefectures in Moscow, which any prefecture will nurture, supply, and cuddle, supplying it with draftees. At the same time, Yuriy Mikhaylovich visited Sevastopol, promising to give Moscow apartments to Black Sea Fleet officers stationed there. Patriotism or pragmatism?

Mr. Dontsov, chief of the Moscow mayoralty's state-legal department and by own admission a Cossack ataman, has connections in his militarized milieu. Let us add that Mr. Dontsov (as follows from his interview to IZVESTIYA) supports interaction between the authorities and mafia dons. They are solid people (also with their own armed squads—V.K.), he says, and have a stake in maintaining order, in suppressing petty street crime. A Cossack pragmatism?

A well-known incident in St. Petersburg demonstrates what the rule of order of "organized sportsmanship" means for you and me. An ordinary guy accidentally hit with his Zhiguli a brand new Mercedes driven by some tough guys. And they forced him to assign to them his privatized apartment. They even brought a notary—to formalize the legal "gift." They would have taken the poor man's daughter, but he finally did grab a hunting rifle. Thank goodness, Sobchak later helped him. And how many instances of such "gift-giving" are known in Moscow, where the previous owners either disappear without a trace or become homeless.

In short, vaguely as yet, but groups of current atamans with their "Cossacks" are beginning to take shape. Maneuvers and redeployments invisible to the world are taking place. Why would this be happening? Is this not because the coming 1995 promises to be very hard, with possible political cataclysms, during which it is important to have organized forces? What was it that Mao said—that culprits are created by the authorities?

Keeping in mind that our current regular Army is sitting on a pauper budget ration, is manned semi-forcibly, does not conduct practically any combat training because of the lack of funds, and officers are becoming impoverished and demoralized, all these "personal guards" are becoming a serious force in the surrounding sea of weakness.

And if you and I do not want to become loyal subjects of new monarchs, we have to urgently bring up the question of passing a law against all these "private armies." We need to overcome crime and put an end to the omnipotence of the mafia. So that there would be no justification for the existence of "security forces" the size of a regiment.

Alas, the current regime is incapable of accomplishing this. And that is why yesterday's democrats from among junior researchers are beginning to mention Stalin and Hitler increasingly often. And now one can read in quite serious magazines such as ZNANIYE—SILA that totalitarian regimes did not tolerate any private security services and any mafias. On the other hand, they had work and bread for everyone. Where will these processes in minds and in society bring us?

Official on State Customs Committee Role

954E0418A Moscow EKONOMIKA I ZHIZN in Russian No 53, Dec 94 p 16

[Article by V. Kruglikov, first deputy chairman of the Russian Federation State Customs Committee: " 'Playing"—That's How It Is According to the General Rules"]

[FBIS Translated Text] The customs service is one of the base institutions in any economy. Its role is especially important in those states that are carrying out the transition from a centralized economy to a market one. It has been called upon to help the participants in the foreign-economic activity to find a common language quickly with their foreign partners.

Previously, under the state monopoly of foreign trade, enterprises could not go out independently to the world market, and for that reason Russian producers today are encountering trade conditions that are new and not very familiar to them.

Our task consists in fitting the new economic system in Russia to the system of world economic ties and by that means in giving the necessary impetus to the development of foreign economic ties.

It is possible to execute this mission only if the customs affairs in the country are properly set up. Because if a state has its own customs system that is completely different from all the other ones, both import and export inevitably come up against that incompatibility. In this instance both the state structures and the commercial structures suffer material losses.

For many years many countries have understood that what is needed is an organization that has been called upon to harmonize and unify the customs rules and procedures. That is why the Customs Cooperation Council [CCC] was created. Seventeen European countries were its founders in 1953. Currently this unique customs united nations has more than 130 participating countries.

When entering the organization, a country pledges to adhere strictly to the rules that were developed by the Council. This serves as one of the basic paths for integrating the state into the international economic community. The CCC has developed 18 international customs conventions, 46 recommendations, and 11 standards. Experience indicates that their use in the practical situation makes it possible to reduce by approximately 5-10 percent the operating expenses of the participants in the foreign-economic activity.

The Soviet Union entered the organization in July 1991. And Russia, as the legal successor of the USSR, took a place in the Council in January 1992. Thanks to this fact, Russia acquired not only access to the unique experience in economic development, but also the opportunity to exert an influence on resolving questions of integrating the customs systems of various countries. And that enables Russia to facilitate the access of its commodities to foreign markets and, on the other hand, promotes the entry of foreign commodities into Russia.

In addition, working within the framework of the Council, the Russian customs service has colossal opportunities for interacting with its foreign colleagues and uses them successfully in questions of education, refresher training, and the fight against violations of customs rules.

Today the customs service deals not only with casual smugglers, but also with entire structures that are operating within the framework of well organized big business. We have observed a shifting of the illegal attempts by criminal groups into the field of customs-tariff regulation.

Something that has become an obvious fact is not only the quantitative and qualitative increase in the amount of contraband, but also its internationalization. During the past few years large-scale Mafia structures with well organized ties with foreign countries have had the opportunity to form. There exists an understanding between Russian and international criminal groupings concerning the exchange of stolen cars and computer technology for Russian narcotics, strategic raw materials, output and technology from the military-industrial complex, and radioactive materials.

When the matter pertains to smuggling, it is necessary to combine efforts to untie the criminal knot. Therefore the Russian customs service has established and carries out direct computer exchange of information with the data base of the EC CCC in Brussels.

During the first nine months of 1994, the Russian customs agencies initiated in noncommercial turnover 1,151 cases involving contraband with a total value of R18.65 billion, and 11,565 cases involving the violation of customs rules, with a total value of R40.85 billion.

During that period of time one continued to note a tendency of increase in the number of instances of the illegal carrying out of freely convertible currency. Among the main channels for that export the countries that stood out especially were the countries of the Baltic and the CIS, Turkey, China, and the Mid-East countries. In many instances, the foreign currency was in the possession of members of tourist "shuttle" groups and was intended for the purpose of buying and subsequently importing into Russia consumer goods for commercial purposes. But at the same time there was no decrease in the amount of currency being smuggled out of the country with the use of forged customs declarations and bank authorizations. One's attention is also attracted by the increase in the number of attempts to remove large amounts of currency without going through customs inspection—amounts as large as several hundreds of thousands of U.S. dollars.

In commercial turnover, 18,720 cases were initiated, of which 4,620 were involved with export, 13,188 with import, and 912 with other regulations.

The total amount of fines in cases involving the violation of customs rules was R103.22 billion.

As is the situation throughout the world, the customs service fulfills a fiscal function. Throughout the year Russia's customs service undertook a number of measures to assure the complete receipt of customs payments into the income part of the budget. The system implemented modern technological schemes for the preparation of customs documents, which schemes make it possible to monitor the correctness of the determination of the customs value of the computation and collection of customs payments, and this work is constantly monitored.

During the year there has been a three-fold increase in the correlation of customs payments to the value volume of export-import operations.

On the basis of the year's results, we are planning to execute the assignment that was established for the customs agencies—to send to the budget R13.4 trillion, which will constitute approximately 20 percent of the tax part of the budget income.

State Property Chief to Re-Nationalize Aluminum, Oil Industries

954F0811A Moscow SEGODNYA in Russian 28 Dec 94 p 1

[Commentary by Mikhail Leontyev: "A Scare for Investors"]

[FBIS Translated Text] The mass media confirmed once again that Mr. Polevanov, the new chief of the GKI [State Committee for the Administration of State Property], firmly intends to "re-nationalize" the aluminum industry, whose privatization, in his opinion, has damaged Russia's national interests. It remains unknown how adequately Mr. Polevanov had been able to learn about privatization issues, considering that just a month ago, immediately after his unexpected appointment, he confessed of having no notion of this subject. And whose interests he regards as national interests.

It is known that any attempt to put in doubt the inviolability of private property can damage national interests to the extent Mr. Polevanov could not dream of in his worst nightmares. It is easier to believe that the point in question is not so much national as corporate interests. Since it is hard to imagine Mr. Polevanov—a privatization neophyte—being an independent figure, it appears more expedient to identify the circles that are behind him.

The chain of events that became public over the past weeks suggests that a some sort of a coordinated campaign to prevent any investment entering the Russian economy is underway. General Korzhakov zeroed in on the sector most attractive for investors—oil and gas. The head of the Presidential Security Service's advice is very indicative: To assign the task of restoring the "national interests" in the TEK [fuel and power generation complex] to First Deputy Prime Minister Oleg Soskovets, known for his ineradicable jealousy of this sector. The fact that Korzhakov's letter of apparently confidential nature was so easily leaked to the press, which was facilitated by the absence of any restrictive designation, and the quite benevolent attitude on the part of Mr. Korzhakov himself to the fact of publication of his letter. As well as the seemingly sincere amazement over any complaints regarding the very fact of its existence.

The letter, however, has caused a considerable panic in leading foreign publications, which understand fully well that enormous material interests are behind this incident. One gets the impression that someone wanted very badly to seriously scare foreign investors. And in doing so to deal a below-the-belt blow to the unloved Russian TEK and the smug oil industry captains. There is no need to ask who benefits from it.

The most interesting and amazing in this story is that while publicly pontificating on the subject of nationalizing the aluminum industry, Mr. Polevanov is quietly writing a **draft of oil industry nationalization.** This is not just a letter from Mr. Korzhakov to Mr. Chernomyrdin. This is a real scare; this will put a chill not only in private investors but also in the IMF and the World Bank.

As to all the verbiae regarding "aluminum nationalization," this is either a complete smoke screen or another, already traditional, attempt to eat the already once-eaten soup. That is, it was divided wrong and wrong people got it. Besides, the curators of metallurgy understand fully well that if they lose the ability to continue to rape the domestic TEK by nonpayments, nobody will need any metallurgy, especially aluminum. Because only by dodging payments for the costs of fuel and power makes this sector commercially attractive.

Just yesterday MOSKOVSKIY KOMSOMOLETS published a strange material under the title "The TEK Is Being Readied for a Divorce." Presented as parties to the divorce are Prime Minister Viktor Chernomyrdin and Minister of Fuel and Power Generation Yuriy Shafranik; it says that Mr. Shafranik allegedly is "undermining" the prime minister and is working on perfidious plans of nationalizing the oil industry. The document quoted in the article provides no grounds for these completely insane conclusions, but this is of no particular interest to whoever commissioned it. One can detect here the old method of "Hold the thief!" where no grounds and arguments are asked for.

Polevanov's nationalization impulses represent no less danger for the Russian constitution than Chechen separatists. The only thing we can ask of comrades in charge: Please do not take the GKI building the same way as Groznyy—by storm; at this point it is as easy to extract Mr. Polevanov (unlike General Dudayev) from where he is as it was to put him there.

'Roskommetallurgiya' Official on Industry Prospects

954E0404A Moscow RABOCHAYA TRIBUNA in Russian 28 Dec 94 p 2

[Interview with Vsevolod Generalov, deputy chairman of Roskommetallurgiya, by V. Smyk; place and date not given: "Ferrous Metallurgy Coming Out of Recession?"]

[FBIS Translated Text] **Reports have appeared recently to the effect that Russian metallurgy has finally entered a phase of stabilization. More than that, some degree of growth has even been noted in the branch. Has the crisis ended with metallurgy discarding unnecessary production facilities and acquiring its natural profile? The conversation with Vsevolod Generalov, deputy chairman of Roskommetallurgiya, began with that question.**

[Generalov] Unfortunately it is hard to agree with such a statement. Over the past four years domestic metallurgy has sustained losses that are difficult to compensate. The output of ferrous rolled products decreased by about one half, while that of pipes out of refined copper went down by one third, and nickel output decreased by a factor of approximately 1.5 as compared with 1990.

This decline is conditioned by the absence of effective demand among the main consumers of metallurgical production. It is presently possible to halt a further drop in production volume by increasing export deliveries of metal products. In itself of course, that is a positive fact indicating that our metallurgical industry is making competitive-quality products. At the same time it is important that 60 percent of the exports of Russian metal are not cast iron and billets, as before, but processed products. Under conditions, however, when the domestic market continues to disintegrate, while prices for energy sources and raw material continue rising, it is premature to talk about resolution of the crisis.

[Smyk] Today it is probably difficult to propose a universal recipe for bringing the economy out of its crisis. In your opinion, Vsevolod Aleksandrovich, which methods are the most promising?

[Generalov] The Russian Federation Committee on Metallurgy of the as long ago as three years reached the conclusion that a way out of the crisis lies through the elimination of independence among enterprises and their integration in various associations. Experience indicates that financial-industrial groups constitute the most effective form of amalgamation.

The main question is what principle should be used in amalgamating into financial-industrial groups. First of all it must be done on a completely voluntary basis; secondly, in accordance with the principle of common economic interests; and thirdly, with the existence of important premises for joint operation.

Here is an example. On the initiative of the Nosta Joint-Stock Company (Orsk-Khalilov Metallurgical Combine) the Nosta-Pipes-Gas financial-industrial group is being created jointly with our committee. It is planned to include a number of tube-rolling plants in it along with the Gazprom and Inkombank joint-stock companies. That group is linked technologically and also by common interests. Its goal is to provide the gas industry complex of Russia with domestic pipes in a varied assortment. Up to now it has been necessary to purchase them abroad. Secondly the aim is to make them available on the foreign market. A preliminary analysis of economic possibilities of the FPG [Financial-Industrial Group] being created promises an economic effect of a billion dollars along with a significant lowering in the cost of gas extraction. The Nosta-Pipes-Gas joint-stock company has already been created. Further steps depend on the management of the Gazprom Joint-Stock Company.

[Smyk] Vsevolod Aleksandrovich, so far there have been more failures than successes in the creation of financial-industrial groups. What is the explanation for that?

[Generalov] There are a number of reasons. Let us start with privatization. If the Goskomimushchestvo [State Committee on Administration of State Property] had accepted our scheme in accordance with which the state retains 20 percent of the shares of all privatized enterprises, it could have stimulated and guided the integrational processes. The privatization program, however, does not categorize metallurgy as a type of activity where a certain number of shares are left with the government. It is necessary to say that whenever we attempt to create financial-industrial groups, we do not get the support of Goskomimushchestvo. They are mortally afraid of monopoly, and in this regard they have solidarity with the Antimonopoly Committee.

Reality is such, however, that the shares of enterprises are bought up, frequently at dirt-cheap prices, by foreign companies, as happened with the Moscow Hard Alloy Combine, which then become monopolists on our domestic market. The Roskommet (State Committee on Metallurgy of Russia) was against voucher privatization of that enterprise, but its opinion was not heeded.

The same situation may develop in the case of the Novosibirsk Electrode Plant. We categorically disagree with the proposed declaration of bankruptcy by that enterprise, which is of vital importance to our aluminum industry, and we are currently working on the inclusion of that plant in a financial-industrial group together with aluminum plants.

The unprofitability of plants, as a rule, is conditioned not by bankruptcy but the crisis of payments. If we truly want to eliminate that, it is necessary to conduct an economic policy which would make an amalgamated enterprise profitable. Tax benefits will be created for production moving along the technological chain of enterprises in a financial-industrial group and the enterprises will immediately feel the advantage.

Let us look at such a chain: coal, ore, cast iron, steel, rolled products, machinery. Taxes are imposed at each transitional point, including value added taxes, and the further along the chain, the more expensive the products. Remove the value-added tax internally, raise it within wise limits at the "tail-end" of the chain, and the enterprises will work better; more than that, they will begin increasing production output. Unfortunately, so far the Ministry of Finance has been opposed to such an idea. Currently there are a number of standardization documents under discussion aimed at resolution of the most acute issues occurring in the creation of FPG.

[Smyk] You made the growth of production dependent on the existence of financial-industrial groups. The aluminum sub-branch, however, is maintaining its production volume at about the 1990 level even without the FPG.

[Generalov] That level has been maintained in the production of primary aluminum. It did not decline because of the fact that 60 percent of its volume is manufactured out of so-called "given" raw material imported by foreign firms. These are called tolling operations. The foreign firms pay in advance for its processing, assume all responsibility for payments, transportation, preparation of documentation, etc., which is very important with the absence of working capital at the enterprises.

The shortage of working capital among domestic participants in the production process—from the extraction of raw material to the production of finished products—has led to a drop in the output of finished products at most enterprises in the metallurgical complex. Mainly that was caused by nonpayment for raw materials. This is why the proposals of foreign firms to increase the volume of processing of given raw material with a wholesale decline in the domestic consumption of metal (aluminum, for instance, by a factor of more than three) proved to be most timely and allowed the resolution of complex production-technical, economic, and social problems.

[Smyk] As long as we are speaking of tolling, what do you think of the opinion held by Yakov Urinson, first deputy minister of economics, to the effect that working on the basis of that scheme, aluminum workers utilize electricity at low prices (about 30 percent below world prices) and are exporting energy abroad at very low prices?

[Generalov] Let us compare, for example, Canada, a country with a developed hydroelectric power engineering system and high-capacity aluminum industry (2.2 million tones a year) and our Eastern Siberia, which also contains huge hydroelectric power stations along with an approximately the same capacity aluminum plants (2.1 million tonnes a year—three fourths of all our Russian aluminum). Now let us compare prices for electricity. Canadian aluminum plants purchase electricity for 0.5-1 cent per kilowatt-hour, while the aluminum plants of Eastern Siberia purchase it at a price, converted to the American dollar, of 0.8 cents.

It seems that everything coincides. But the point is that in all developed countries aluminum plants, as heavy consumers of electricity, pay significantly less for electric power than others. In Russia no such discounts are allowed for them even though enterprises of the aluminum industry were built in our country in most cases next to sources of low-cost electricity. That was the logic behind the creation of energy-industrial complexes, and it must not be neglected today either.

If we want to ensure the competitiveness of domestic aluminum on the world market, and 80 percent of it is exported, in our opinion, it is necessary to make a practice of concluding long-term agreements for delivery of energy directly between the producers of electricity and enterprises of the aluminum industry. By the way, we attempted to create financial-industrial groups which would have unified our aluminum and energy giants into a single powerful complex. Unfortunately so far that has not worked out.

[Smyk] Perhaps the point may be that the power engineers, as natural monopolists, have the possibility of factoring the investment component in the average tariff and resolving the problem at the expense of their clients? The metallurgists, however, in order to obtain funds which are required for modernization of the enterprises in the FPG, have to seek out investors.

[Generalov] Undoubtedly special benefits must be created for those who invest funds in the financial-industrial groups. Under conditions created by the market economy that is forming, the FPG constitute a most important economic tool.

Regulations on Sale of Dutiable Goods

Decree

954E0415A Moscow ROSSIYSKAYA GAZETA in Russian 30 Dec 94 First Edition p 4

["RF Government Decree of 27 December 1994, No. 1420: On the Sale on the Territory of the Russian Federation of Dutiable Goods Subject to Marking with Duty Collection Stamps and Special Stamps"]

[FBIS Translated Text] In order to implement Russian Federation Government Decree No. 319 "On the Introduction on the Territory of the Russian Federation of Duty Collection Stamps" (Collection of Acts of the President and Government of the Russian Federation, 1994, No. 17, Article 1484) and Decree No. 924 of 12 August 1994 "On Duty Collection Stamps" (Collection of Legislation of the Russian Federation, 1994, No. 17, Article 1992), the Government of the Russian Federation decrees:

1. Enterprises, institutions, and organization-proprietors that have carried out the import of dutiable goods subject to marking into the territory of the Russian Federation, as well as institutions and organizations that have carried out the sale of these goods, shall conduct an inventory of goods imported before 1 January 1995 into the territory of the Russian Federation:

tobacco products, according to their status as of 3 January 1995; drinking alcohol and wine-vodka products for their marking on the territory of the Russian Federation according to their status as of 16 January 1995.

2. To confirm the applied procedure for conducting the inventory of dutiable goods of foreign production found on the territory of the Russian Federation and subject to marking.

3. To allow until 1 March 1995 the sale on the territory of the Russian Federation of tobacco products of foreign production in quantities established as a result of inventory without stamps of duty collection or special stamps

4. To allow until 1 February 1995 the sale on the territory of the Russian Federation of drinking alcohol and wine-vodka products without stamps of duty collection or special stamps.

5. To allow the marking on the territory of the Russian Federation of drinking alcohol and wine-vodka products in quantities established as a result of the inventory conducted in accordance with point 1 of the present decree.

The State Customs Committee of the Russian Federation shall ensure the possibility of acquiring duty collection stamps and special stamps by the organizations indicated in point 1 in quantities corresponding to the results of inventory.

6. Salespeople, managers, and other responsible persons of enterprises, regardless of their organizational-legal form, as well as citizens, bear responsibility for the sale of goods without duty collection stamps and special stamps in accordance with effective legislation.

7. The State Inspectorate for Trade, Goods Quality, and Consumer Rights Protection of the Russian Federation Committee on Trade, with the participation of tax and law enforcement organs, shall within the limits of their competence implement control over the sale of dutiable goods subject to marking.

8. The Russian Federation Committee on Trade shall by 31 December 1994 introduce additions and amendments to the Rules of Sale for individual types of food goods on the territory of the Russian Federation that provide for a procedure for the sale of dutiable goods subject to marking by duty collection stamps and special stamps.

9. The present decree shall go into force as of the day of its publication.

[Signed] Chairman of the Russian Federation Government
V. Chernomyrdin

Procedure for Stock Record of Dutiable Goods

954E0415B Moscow ROSSIYSKAYA GAZETA in Russian 30 Dec 94 First Edition p 4

["Procedure for the Conduct of Inventory of Dutiable Goods of Foreign Production Found on the Territory of the Russian Federation and Subject to Marking"]

[FBIS Translated Text] 1. General Provisions

The inventory of dutiable goods of foreign production found on the territory of the Russian Federation and subject to marking (henceforth: "goods"), bears a one-time nature and shall be carried out by enterprises, institutions, and organizations (henceforth: "enterprises") through their own efforts in order to determine the quantity of dutiable goods, ordering stamps, and marking said goods on the territory of the Russian Federation for their further sale, or for the sale of indicated goods without marking.

2. The procedure for conducting inventory

2.1. In order to conduct an inventory of goods at each enterprise, a commission shall be created consisting of a commission chairman—the manager of the enterprise in which the inventory is being conducted, or his deputy—a materially responsible person, and one or more specialists.

The absence of even one member of the commission for the conduct of the inventory will render the results of the inventory invalid.

2.2. Commissions bear responsibility for the inventory's timeliness and observance of the rules of conduct, for the completeness and accuracy of the data included in the inventory list-documents on the goods according to their actual balance in kind, for the correctness of the designations in the inventory documents of goods and correspondence to the GTD [customs declaration] goods nomenclature according to which their customs registration was completed.

2.3. Data on the goods shall be recorded on inventory list-documents.

2.4. After verification and corrections to discovered divergences are made, each page of the list-document shall be signed by all members of the commission with an indication on each page in words of the total quantity (in-kind indicators) of all goods registered on the given page. Later, summary list-documents shall be drawn up.

2.5. Operations to release goods must not be carried out:

on tobacco products until the conclusion of inventory,

on drinking alcohol and wine-vodka products until the receipt of stamps and the stamping of the indicated goods.

2.6. Summary inventory list-documents for goods subject to marking on the territory of the Russian Federation and a declaration of the verification of the data of the inventory shall be presented to the customs organ in whose zone of activity the enterprise that has conducted the inventory is located.

Officials of customs organs carrying out verification of the declared information have the right to verify the accuracy of any data provided in the inventory list-documents, as well as to carry out, with the participation of the tax organs, a sample verification of the presence of goods in the warehouse.

The verification shall be carried out in the presence of members of the inventory commission.

2.7. In the event that the organs conducting the verification have no concerns regarding the accuracy of the information provided, the enterprise shall start to apply to acquire stamps for marking drinking alcohol and wine-vodka products on the territory of the Russian Federation.

2.8. Applications for the acquisition of stamps must be submitted to the Russian Federation State Customs Committee (customs duty post) no later than 20 January 1995.

2.9. Inventory data on tobacco goods imported onto the territory of the Russian Federation before 1 January 1995 shall be kept at the enterprise that conducted the inventory and shall be presented on demand to organs monitoring observance of the legislation in effect.

3. The procedure for the acceptance of applications for stamps and the issue of stamps to those applying for them

3.1. The procedure for the acceptance of applications for stamps and the issue of stamps to those applying for them shall be determined by the Russian Federation State Customs Committee.

3.2. The price of stamps shall be determined by the Russian Federation State Customs Committee, which will take into consideration the cost of the stamps and of delivering them to their places of issue.

3.3. Should an enterprise refuse to receive stamps they have paid for, funds shall not be returned.

3.4. Applications to receive stamps from enterprises that have not conducted an inventory of goods subject to marking in accordance with the present procedure shall not be accepted by the customs organs of the Russian Federation.

Congress of Russian Entrepreneurs Held in Moscow

Entrepreneurship Program

954E0438A Moscow EKONOMIKA I ZHIZN in Russian No 52, Dec 94 p 1

[Article by M. Panova and I. Sklyarov: "The State and Entrepreneurship: Standing on the Soil of Partnership"]

[FBIS Translated Text] The First Congress of Russian Entrepreneurs was held 19 December in Moscow. The significance of this forum is determined, of course, not by the fact that it is the "first," or only by the fact that about 1,000 delegates from most regions of Russia participated in its work. It is felt that the essence and significance of what took place is more accurately reflected in the qualitative composition of its participants and in the goal for which they gathered together from all far-off corners of the country.

Perhaps the phrase that resounded from the presidium of the congress is no exaggeration. "Here are gathered the elite of Russian entrepreneurship." If one were to enumerate just the entrepreneurs and their association leaders whose names are familiar to the broad segments of society, to name the several dozen well known associations, organizations, unions, and societies that sent their members as delegates to the congress, the list would probably take up an entire page of newsprint. All the same, it is more important to discuss something else: Many of these people and organizations represent diverse capital—petty, large-scale, financial, industrial, trade; they have diverse economic interests and markedly diverse political leanings and positions with respect to the tactics and course of economic reforms in Russia. But despite all this diversity, these entrepreneurs share a common interest in a favorable economic climate, in the formation in our social consciousness of a positive attitude towards entrepreneurial activity, and in developing partnership relations with the authority at all levels. If we look at the big picture, we see that the chief "culprit" in uniting the entrepreneurial ranks assembled at the congress is the state, its structures of power, its great multitude of controlling, inquiring, and intimidating departments and officials, whose regulations for the existence of entrepreneurship in Russia is such that even "the elite of Russian business" feel extremely uncomfortable in their native land.

In short, the time has long since arrived when it is necessary to consolidate on the basis of common interests and create a powerful social organization that will stand up for the interests of the entrepreneurial class in general. I will state at the outset that the organizers of the congress succeeded in accomplishing this difficult task—they created the national Coordinating Council of Russian Entrepreneurs based on the already functioning organization Roundtable of Russian Business. Its potential influence in society is determined by the fact that it unites the majority of already functioning federal and regional business-sector and professional associations, organizations, unions, parties, and movements. We can only hope that this potential will be put into action to raise the economy, to benefit all the people of Russia.

In the tradition of such forums, the beginning of the congress was marked by a reading to the delegates of the welcome of Russian President B. Yeltsin and State Duma Chairman I. Rybkin. One can believe the sincerity of their words concerning the lofty role of entrepreneurs in reforming Russia's economy and the desire to establish favorable conditions for Russian business through legislative measures. However, broad partnership and mutual understanding between the authority on the whole and entrepreneurs, as the new, most active social segment of our society, are not apparent. Unfortunately, the institutions of authority are not capable today of guaranteeing genuine market transformations and the necessary conditions for the development of entrepreneurship. A wide expanse has been formed for corruption, bureaucratic arbitrariness, and illegal activity on the part of officials. The interests and problems of entrepreneurs, who comprise the main social base for economic reforms, remain alien and incomprehensible for the most part, if not inimical, to the army of officialdom. State structures of authority genuinely display "keen interest" in entrepreneurial activity only when it comes to tax assessments, control and intervention in the activity of businessmen, enterprises, firms, banks, and other market economy entities—a fact which was heard repeatedly in the speeches of congress delegates.

It would be unfair to assert that the government and president have turned a deaf ear to entrepreneurs and are not attempting to somehow ease their conditions of activity. Next year, for example, as we know, we will see a noticeable decrease in the number of applicable taxes; the tax burden will drop off somewhat. However, as Deputy Prime Minister Anatoliy Chubays admitted in his speech to congress delegates, tax legislation remains ineffective all the same, and by mid-1995 the government intends to develop more radical proposals on amending the system of taxation. Russian Economics Minister Yevgeniy Yasin reported at the conference that the government is drawing up documents aimed at creating a system of guarantees and insurance for investment risk. And so, the government has found 1 trillion budget rubles to stimulate private investments in highly effective projects. In essence, the struggle to adopt a tight budget is aimed at lowering the rate of inflation and rehabilitating the entrepreneurial climate.

However, the measures planned by the government can hardly be expected to fundamentally change the economic situation in the country or the relationship of the state to entrepreneurship. Judging from the speeches delivered at the congress, entrepreneurs are not counting on this. Too many problems must first be resolved. We will not enumerate them here—they are reflected in the statement and declaration adopted by the congress, excerpts of which we present on this page. We will note only that in shooting a great many critical arrows at the authorities, forum participants still expressed in congress documents a demanding but constructive and even self-critical position.

Resolutions of the congress provide the soil for interaction between the government and entrepreneurs, Anatoliy Chubays told congress delegates. We would like to set foot on this soil, as the saying goes. In conclusion, it remains to be said that famous Russian entrepreneur Ivan Kivelidi was elected chairman of the Coordinating Council of the Roundtable of Russian Business.

Excerpt from Congress Declaration

954E0438B Moscow EKONOMIKA I ZHIZN in Russian No 52, Dec 94 p 1

["From the Congress Declaration"]

[FBIS Translated Text] We have the right to be heard by the authorities, and the opportunity to force them to listen to us. Having accumulated experience in the practical implementation of reforms, we are ready to provide constructive proposals on the basic issues of economic policy, on the forms and methods of carrying out reforms.

In this regard, we would like to hear proposals by the structures of authority to us, the entrepreneurs who are implementing these reforms in practice. Only in this manner can a dialogue emerge founded on principles of partnership and dictated by our common concern for Russia and its future, the future of our children and grandchildren.

We have not set for ourselves the tasks or goals of a political struggle for power, but we intend to firmly stand up for our interests using all possible legal methods, including political methods.

We intend to transform the Roundtable of Russian Business into a powerful social organization which will express on a professional basis the concentrated opinion of business circles with respect to basic problems of socioeconomic policy, first and foremost issues dealing with budget formation, the tax system, licensing, banking activity, the stock market, and customs regulation. Having become the most representational organ of entrepreneurs, Roundtable of Russian Business will become as well the natural defender of the interests of the country's property owners, and will acquire the right to conduct negotiations with structures of authority on behalf of the social group comprised of many millions of business people of Russia.

Excerpt from Congress Statement

954E0438C Moscow EKONOMIKA I ZHIZN in Russian No 52, Dec 94 p 1

["From the Congress Statement"]

[FBIS Translated Text]—The congress believes that a full-fledged and noncontradictory legislative base for entrepreneurship is an absolutely necessary condition for the functioning and development of business. The congress therefore turns to entrepreneur-deputies of the Russian Federation Federal Assembly and appeals for the creation of an inter-chamber deputy group whose objective it will be to develop such a base and stand up for the interests of economically active citizens and their associations.

—We ask that the foreign policy of the state be constructed taking into account the interests of Russian entrepreneurs, and that it further the restoration of Russia's economy... We insist on being able ourselves to participate in the elaboration and implementation of this policy.

We direct the attention of the government to the fact that access to financial resources and to realization of export-import activity is restricted to a narrow circle of firms and banks. State monopoly of foreign economic activity is growing into an even more dangerous monopoly of individual firms. We ask for an open and democratic compilation of the listing of special exporters and agent-banks, and insist on transition from the principle of authorization to one of registration in this sphere. We also insist on the broad enlistment of Russian entrepreneurs to assist in resolving the problem of accelerated liquidation of the debt owed Russia by a number of countries. We believe the government must organize the sale of debts to Russian entrepreneurs and render effective political and legal support in their "sale and barter" on local markets.

—The president, the Federal Assembly, and the Russian Government are obliged to develop a system of measures for stimulating the development of production and mechanisms for their implementation. Entrepreneurs are prepared to cooperate in this sphere.

Processes of investment first and foremost require immediate activation. It is here where a consolidation of effort on the part of the government and entrepreneurs will yield the greatest results. We believe that emission is justified if it is implemented in the form of project financing and 100-percent related investment credits. In our opinion, the government is obliged to establish in the shortest possible time frame a system for insuring investors from political risk, including from the government's own inauspicious actions.

—The existing system of taxation is pernicious to the Russian economy.

The president, the government, and legislators must finally provide a clear answer to the question of what policy they intend to conduct—one of eliminating poor people, or of not engendering rich ones? One of making the taxpayer economically independent and law-abiding, or making him continue to conceal income and evade taxes?

We demand an immediate repeal of the absurd decision by which interpreting the laws and issuing normative acts are entrusted to the people and services that collect taxes.

—The congress emphasizes the need for a more well-considered approach by the state authorities to the development of the banking system in the country. Sharp changes in the regulations according to which this system functions, whether it be taxation of banking activity, altered financial norms or institutional procedures, changes in the operation of commercial banks or their elimination, undermine the foundations of business and deny us the ability to conduct it soundly, to effect a normal organization of raw material purchases, production, and sales. It is intolerable to charge banks with inquiry, fiscal, and other police functions. And particularly intolerable to accuse them of "Black Tuesday" phenomena, to exert political and other pressures on them.

—Recognizing the important role of the state in the establishment of general principles and operating rules of stock market entities, the congress notes the passivity and virtual absolute aloofness of the executive and legislative authorities in this sphere. We also believe that the principle of maximum self-regulation of the professional participants in this market is a necessary condition for the successful development of this important sector of the economy.

—The congress condemns the adventurist and fraudulent operating methods of certain firms, which take advantage of the low economic culture of the populace and openly deceive citizens.

We intend to impede the actions of such structures, to boycott their servicing at exchanges and in banks.

—The congress asserts that one of the main factors blocking the civilized development of Russian business and the flow of foreign investments is the critical level of crime... The growth of crime goes hand in hand with the unprecedented flourishing of corruption in the organs of state authority.

The Congress of Entrepreneurs appeals to the authorities to set up a program of large-scale, constructive interaction in curbing the rampant surge of crime in the country.

Chubays' Plans To Attract Domestic Investment Assessed

954E0402A Moscow ROSSIYSKAYA GAZETA in Russian 28 Dec 94 pp 1, 3

[Article by V. Kucherenko: "Where Are You, My Good Investor?"]

[FBIS Translated Text]

The Issue of Attracting Private Capital in Production Becomes Paramount

So, the parliament has adopted Budget '95 in the first reading. The goal of the latter is to achieve stability of the ruble through rigid economy, thereby attracting private capital in production, which is perishing, and save the people. Will that succeed? What efforts will that call for?

Deputy Prime Minister A. Chubays, who has now become "the economic strategist" of the government, expressed satisfaction:

"It was possible to lay the foundation of a healthy financial system. The concept promulgated last autumn by the government was approved, the essence of which is that after balancing the budget, inflation is to be brought down to 2.5-3 percent a month, halting the rise in prices. In January, of course, inflation will be higher, but by the end of 1995 it will be compensated by the stability that will be achieved, which is desired so much by private investors."

In our conversation with the deputy prime minister, however, we attempted to explore certain points that inspire apprehension. After all, the private investor is skittish and, as Lenin once said about the middle peasant, one cannot command him. Yes, the stability of the ruble will attract him. But that depends on the elimination of the budget deficit, which was planned on the basis of IMF credit. But is the IMF prepared to grant it, in the light of our complicated domestic political situation and the war?

"Even though the IMF negotiations are proceeding with difficulty, we are anticipating success," the deputy prime minister observed. "What is most important to that organization is a realistic budget. They are disturbed not so much by the deficit as by the sources for covering it. Here the government took an important step avoiding excessive attraction of the funds of private investors through the sale of government securities to them. Formerly, the goal was some R41 trillion, whereas at present it is only R30 trillion. In that manner more resources will remain for private investments in industry, which will diminish dependence on foreign credit."

The attraction of private investments in privatized enterprises is really the principal hope of rescuing the Russian economy. But will it be possible to attract them?

Here a great deal of personal responsibility falls to Chubays. First of all, the Share Market Commission, headed by him, must interdict the action of speculative "pyramid" structures of the MMM type, which take investments away from production. It is somewhat premature to speak of success in that area. For almost a year, structures similar to MMM have been operating without hindrance on the securities market, gaining strength and "seizing" everything in sight, giving rise to a mentality of easy money and insane interest rates.

On the other hand, private investments in production must be supported by the government so that every ruble invested privately is matched by a ruble from the state treasury (the correlation may be different, but business insists on that as a minimum). That approach is professed by the Ministry of Economics. Were it not for such support, there would be no desired nonbudgetary investments, those visible fruits of the reforms.

The "catalyst" for that, however, consisting of investment resources out of the budget, is very limited. According to Chubays—around R10 trillion. At the same time that money will also have to be used for financing the military and economic resolution of the "Chechen question," as well as for making investments in the fuel-energy complex, whose investment famine is estimated by the Ministry of Fuel and Power Engineering to be R24 trillion, plus everything else. Yu. Luzhkov, the mayor of Moscow, also pointed out the bad situation with regard to food supply in the capital, asking for 9.7 trillion in direct state investments. Thus, the timing is bad, and there will be some fierce clashes among lobbyists fighting for this small "fund for support of investments."

Chubays, as leader of the economic bloc in the government, promises to do everything possible, spending the limited resources of the treasury with maximum effectiveness, Thus, Luzhkov, according to him, "will be given some support," but certainly not in the amount of 9 trillion.

An important role in state support and the attraction of private capital could be played by structures that were organized in 1993: the Gosinvestkorporatsiya, headed by Yu. Petrov, former chief of administration of the president of the Russian Federation, and the Rosfinkorporatsiya, led by A. Nechayev, the former minister of economics. They were planned for the purpose of concentrating all state investment resources and for the creation of large insurance funds. For instance, it was planned to give Petrov's corporations property valued at $1 billion by presidential edict.

As long ago as the end of 1993, D. Tulin, deputy chairman of Central Bank of Russia, proposed that Petrov's and Nechayev's corporations be made the embodiment of several key national projects that are "locomotives" of the national economy. They could be made a "magnet" for the funds of businessmen and the population. It was specifically they, and not the MMM, that could have sold shares to citizens, and everyone would know that these papers are really backed by the state budget, lands, gold and foreign currency reserves, and property belonging to the treasury in enterprises. Unfortunately, that was not done.

A. Chubays also believes that in a year and a half of existence of the notorious structures, there has not been any radical change in the situation with private investments, despite the extensive support provided Gosinkor. The deputy prime minister is convinced that it is most important to create an infrastructure for private investments. Unfortunately, he did not define the place that would be occupied in it by state corporations that have already been created.

State support of the private investor, however, is still not everything. If one compares a commercial investor with a football player, it is impossible to entice him, no matter what the incentive, onto a field that is uneven and pitted, and where there are no good referees or rules of the game. Who will invest his funds in a privatized enterprise whose director has no consideration for the views of his shareholders, builds a cottage for himself using their money, and the enterprise bank account reads zero? In addition to which that plant does not pay for products it purchased and cannot collect money for delivered goods from its colleagues with the same characteristics. We are depicting a typical situation, which has been discussed numerous times at sessions of the government commission on nonpayments and in letters from our readers. In order to normalize the situation in that regard, immense legislative and organizational efforts are called for.

Finally, it is possible to attract private money in production only when it becomes profitable. The tax system has grown so onerous since the end of 1991 that it is more profitable to trade than to produce. In May the president promised to ease the tax burden and simplify it. So far, that has not happened. If taxes are lowered, the budget will be out of balance and the stability of the ruble will be undermined while also frightening off the investor. But high taxes are not going to attract him, either.

Right now A. Chubays is saying the same thing he said six months ago: Ease and simplify. According to the deputy prime minister, in order to achieve adoption of the budget by the Duma, it was necessary to agree to the demand of the Agrarian Party, adding another 2.5 percent to the value-added tax for the support of the village. At the same time however, they say, the tax on the exchange rate difference is being repealed, which could have yielded 6 trillion in revenue in 1995. That is to say, those who purchased dollars for rubles will not pay taxes if the dollar goes up in price. The deputy prime minister views this as an easing of the tax burden. But there are some misgivings that with taxes that make production not too profitable, this measure will lead to an increase in currency speculation. That is, it will be more profitable to buy and sell currency than to produce goods.

Chairman on State Investment Corporation Program

954E0419A Moscow TRUD in Russian 21 Dec 94 p 4

[Article by State Investment Corporation Chairman Yuriy Petrov: "The State Will Pay Its Debts and Only Become Richer Thereby"]

[FBIS Translated Text] I admit I don't like noisy debates, especially the kind that are of a frankly huckstering, populist character. Much less did I think it necessary to focus the public's attention on a problem which has yet to be solved. The practical result is more important to me than the propaganda it is wrapped in. In this case I was forced to take up the pen by articles in several of the media concerning a project submitted to the RF [Russian Federation] President by the State Investment Corporation. It would have been possible to ignore these attempts to cast doubt on things without looking into them: I am perfectly aware that many people these days will readily carry out any command if it pays. But I decided to speak out, because it concerns an extremely serious action touching upon the interests of most of the population and relating to the prospects of the country's economic development. I hope readers will be able to grasp the essence of the problem, and for our part my colleagues and I are ready to answer any questions that come up after reading this article.

Our proposals to the President concern the state's domestic debt—more precisely, compensation to citizens who have lost savings due to inflation. These savings were built up over the years ruble by ruble in savings books, providing some guarantee of the future, a more or less comfortable old age, and the possibility of leaving something to the children. Then all of a sudden, everything crashed. No matter how you slice it, millions of people essentially wound up deceived and robbed. This struck a serious new blow to the public's confidence in the correctness of the course of action toward market reform of the economy.

What is the solution to this difficult and rather shameful situation? This question is always on the Parliament's agenda; it is always hanging in the air in discussions of the government's economic plans, and various political forces have made it their trump card in the struggle for power. This is natùral: unless these debts are repaid to people, the money they worked so hard to earn, it is difficult to count on the trust and support of the public, the voters.

The State Investment Corporation last year brought together a group of scientists, specialists, and analysts and worked closely with the RF Committee on Land Resources and Land Use and the administrations of a number of oblasts and drew up a plan to solve the problem. We think it has a fundamental feature, namely that the state will not only settle all debts in full but also—no less important—activate the investment process. As the plan is implemented, resources will be mobilized and give the economy its second wind, so to speak, and the almost defunct mechanisms of expanded reproduction will go into high gear. In this way a twofold task will be accomplished, each component having enormous importance, both economic and social-political.

Hence, Gosinkor [State Investment Corporation] and its "Land and People" joint stock company, have worked out a program whose basic goals are these: to compensate the population of the RF for indexed pre-reform savings, in the form of money and property; to create a reliable system to attract funds from the public, physical and legal persons, and Russian and foreign investments; to shape and develop a modern land market; to create a modern infrastructure on the basis of a State Mortgage Property Fund (land plots, real estate, and so forth).

The conception has been designed to balance the interests of various strata of Russia's citizens, and it spells out the noninflationary nature of the payment, duration and stages of the procedure of compensating savings without damaging the basic financial system of the state. A forecast has been made of the technical-economic and social-political consequences of the plan.

Now we have basically completed the drafting of documents regulating the program's implementation. It is a very complex matter, and I think it would be premature to talk about it in all details, especially since they still have to be worked out. Therefore, I will try to sketch the plan only in general outline.

By various estimates, the state's debt on the public's deposits, taking indexation into account, is between 600 and 800 trillion rubles. Qs. Quite a lot of money, you see. Where to get it? We propose to take it from those who can and want to give it and settle with those to whom it is owed. We plan to issue securities paying high dividends, but they won't be secured by three butterflies on the TV screen or the unfounded agitation of familiar personages. State property will provide the guarantee of reliability of our securities. Not assurances and oaths, you see (people have already been burned) but actual specific material assets. We propose to set up a State Fund To Restore and Protect Citizens' Savings. According to Roskomzem [Russian Committee on Land Use] data, a certain number of hectares of state reserve lands can be put into the fund quite painlessly (actually, the country will profit!), both in rural areas (not farmlands, to be sure) and in cities and suburbs. All this state reserve land property is basically going unused today; in fact, the juiciest pieces of it are often sold for a song by the rules of "people's privatization," and sometimes just given away.

Besides this land, other liquid resources of state property are also to be put into the fund—real estate, uncompleted construction projects, surveyed but not exploited deposits of minerals, timber and water reserves, and others. I am purposely not citing specific figures, because they still have to be determined—incidentally, the President has granted time for it. What is important is that these assets, rather than mythical promises, will guarantee the reliability of the new securities.

The funds mobilized by the Fund's institutions will be used both to pay off the state's debts to its citizens and to develop infrastructure—build roads and bridges, develop communications, and so on. It will be possible to build structures and buildings, shape a network of small and medium-sized business, and prepare surveyed mineral deposits for exploitation. The territories thus developed are to be put up for auction, and the funds thus generated will go to implement other highly-effective projects.

Thus, the state will be able to settle its debts and, equally important, put unused land and other property to economic use. By our estimates (preliminary, to be sure) putting the "Land and People" program into action will make it possible, by the end of the first year of its actual implementation, to start compensating the most socially disenfranchised strata of the population, and within 10 years—or perhaps earlier—to completely solve the problem of restoring and protecting citizens' pre-reform savings. We are certain, moreover, that the fund's securities—like the land which backs them up—will constantly rise in value, thanks primarily to the frugal and effective endeavors of the fund's subunits. And then, citizens themselves will decide when to take out their capital and in what form.

Let me emphasize one important factor. The program is not intended for any corporate or narrowly political purposes. Everyone should win from implementing it: people will get their savings back; thanks to the wise use of reserve lands, regions of Russia will gain great social-economic acceleration; the state will pay back its debt and thereby strengthen its authority, and in addition it will gain a stable source to replenish the budget. And, very important in terms of the future, Russia will make great strides in developing the market. The whole world knows that the most precious commodity, which never loses its value, is land; we are the only ones who have failed to treat this truly priceless treasure properly.

After working carefully and comprehensively through the basic propositions of our program I sent an appropriate letter to Russia's President. We also drafted a presidential Edict, which, we think, can serve as the specific mechanism for implementation of the Duma's Law "On Restoring and Protecting the Savings of Citizens of the Russian Federation." We realize that we are taking on a colossal responsibility and that the program is extremely complex. It will require well coordinated joint efforts with regional authorities and concerted participation, not least in perfecting the mechanism to implement the plan, on the part of organizations and institutions, state structures, politicians, and the press.

We are also fully aware that at the broadest stage of concerned discussion of the plan there will be a great deal to revise and refine, taking account of the specific characteristics of the regions, and also simply deal with new problems which cannot be predicted now.

Our Corporation follows classical financial rules. We are involved in many kinds of activity—investments, insurance, banking, and trade; but we are not involved in dubious or reckless plans. We are acting as guarantors of investments, and we know the demands and value of reliability. This year alone, the Corporation's profit came to tens of billions of rubles. And we are confident that this plan will also be well considered, reliable, and profitable.

Unfortunately, as is well known, a serious battle erupted over the idea even during the exploration stage. Other versions of the presidential Edict are being prepared, and efforts just to get the problem moving is placed in jeopardy, and some people think that our proposals are designed to further purely political aims. What can I say in response to this? Just this: we are indeed pursuing political aims—or, more accurately, the most important of political aims. This vital aim is to help this country and this nation to get out of the crisis and provide a decent life for the majority, not just a chosen few.

Central Bank Executives in Bank Activities

954E0435A Moscow KOMMERSANT in Russian No 49, 27 Dec 94 pp 38-40

[Article by Yelena Makovskaya: "The Prudent Architects: Central Bank Specialists Reveal the Secrets of Their Work"]

[FBIS Translated Text] **For about two years, the Central Bank of Russia [CBR] has been engaged in efforts to reform the national clearing system. For about as long, the CBR has avoided publishing any details of the results of its experiments, seeing this as premature. Today we publish exclusive interviews with CBR specialists—the architects of the all-Russia clearing system—who until recently had stayed in the background.**

The shroud of secrecy over the work of the CBR was partially removed in the course of the meeting of the international coordinating committee on improving the clearing system in Russia, held on 15-16 December in St. Petersburg.

Tatyana Paramonova, the acting chairman of the Bank of Russia, who had been continuously chairing the International Coordinating Committee (MKK) meetings, told KOMMERSANT that the very idea of setting up this committee under the CBR's auspices came about in 1993. According to Tatyana Paramonova, within the committees framework, "Six working groups were set up, headed mainly by CBR specialists and consisting of representatives of the IMF and other international financial organizations, central banks of European countries, the U.S. Federal Reserve system, and Russian commercial banks."

Everyone seems to agree that the International Coordinating Committee's group on the system of transfer of large sums of payments achieved the greatest success in its work. Its head—*Tatyana Matveyeva, deputy director of the CBR computerization department*—told us, "The Bank of Russia analyzed the structure of payments from different angles: intra-RKTs [clearing center] transfers, intraregional, and interstate transfers. The results of the research showed that payments in the amount of over R100 million, which comprise only 1 percent of the total, account for 88 percent of the total amount of transfers. These results gave CBR specialists and other working group members the idea of setting up a separate System of Transfer of Large Sums of Payments (SPKSP) within the system of electronic clearing."

The economic sense of creating an electronic transfer system, and in particular, a subsystem for transferring large sums, lies in the fact that it gives the participants same-day clearing of transactions and will increase money turnover in the country where inflation is still quite high. "On top of this, the System of Transfer of Large Sums of Payments will give commercial banks the enviable ability to manage their liquidity, quickly moving the money from the branches that have a surplus of it to those that need it. The banks will be able to monitor throughout the day the status of their correspondent accounts, information on which will be updated by the CBR every 15 minutes," believes Tatyana Matveyeva.

The first stage of the SPKSP pilot project was implemented in Tula, Ryazan, and Sverdlovsk Oblasts. Then it was extended to 11 more regions. The plan is to extend the experiment by the end of 1995 to approximately 50 percent of Russia's regions, including Moscow and St. Petersburg with their oblasts, as well as Kaliningrad, Volgograd, Irkutsk, Perm, Krasnoyarsk, and a number of other oblasts. The large-sum transfer system will be fully implemented in 1996-1997. Designed to operate in real time, it affects only interbank and interregional transfers. The experimental operation of the system in Ryazan Oblast proves that the time between data entry and issuance of the receipt within the region takes three minutes (the same operation conducted between regions takes 15-20 minutes, provided there are good communications networks).

At the same time, the Bank of Russia had to put in a reliable system of transfer protection, which was done with the aid of the Federal Agency for Government Communications and Information [FAPSI]. Today the multilevel protection ensures the integrity of communications, precludes the possibility of unauthorized access, provides confirmation of the transfer completion, and even permits detection of malefactors attempting to break into the system. At this point, a logical question arises: Could not the FAPSI architects of this protection shield impose state monitoring over the movement of commercial banks' transactions?

Specialists of the CBR computerization department, who are part of the MKK working group on banking system computerization, assured this KOMMERSANT correspondent that such a situation is impossible. Only the Bank of Russia will possess the methodology and the keys. (After such a statement, KOMMERSANT experts breathed a sigh. Almost a sigh of relief.)

Two years ago, all clearing in the country was conducted predominantly through CBR offices; commercial banks constantly accused the Central Bank of payment delays, of "Chechen letters of advice" popping up, and did not particularly believe in its intent to embark on self-improvement. Commercial banks began to look on their own for alternative ways to build a clearing system, bypassing the Bank of Russia, and demanded permission to set up clearing chambers. Perhaps for that reason, one of the first groups set up within the MKK framework was one on organizing interbank clearing, headed by *Natalya Kochetkova, deputy director of the CBR methodology and clearing department.* "At the very first stage of our work, we came to the conclusion that such activities need to be licensed by the Bank of Russia, since clearing operations contain several types of risk—credit, system, and liquidity risk. Today a decision on issuing licenses to clearing chambers is made by the Bank's board of directors," she said in an interview with KOMMERSANT. (Only foreign banks are issued licenses through this procedure.)

According to a CBR representative, the MKK and CBR clearing group put a lot of effort into development of net multiple clearing between private clearing chambers. Now the Bank of Russia is trying to "catch up" and is developing a concept of building a state clearing system on the basis of clearing centers (the pilot project is operating in Tula in an experimental mode). These will be nonprofit organizations, whose revenue will be immediately directed into the development of the clearing system.

Two models were selected for private clearing. One assumed clearing within the limits of the funds deposited in advance by participants. This design of multiple clearing was once compared by Western experts to a game of roulette, where all participants in the game make bets, act, and risk within the limit of the money they put up. The other—classic—model is more risky. It does not require that participants in the clearing deposit money in advance, but neither does it allow even one participant in mutual clearing to end up with a negative balance as a result of the clearing session. In this case, similar to the children's game "Keep Away—No Count," all operations are considered invalid. If within a few hours the defaulting player cannot find, for instance, an interbank credit to cover the loss, all operations conducted during the session are voided. After excluding the "black sheep" from the game, the participants can repeat the clearing session.

"The clearing process usually is divided into three stages: exchange of payment orders, calculation of net position, and entry into the accounts of participating banks," Natalya Kochetkova told us. "A private clearing chamber of the first type successfully completes all three stages on its own. The second model envisages that completion of the clearing is done with the participation of the Bank of Russia. Overall, the CBR over this year and a half worked closely with commercial banks, for whom the very meaning of the notion of clearing at first was not completely clear. As time went by, when the CBR defined clear requirements for the procedures of conducting multiple net clearing, a number of applicants for such licenses decided not to go ahead with it."

Of seven applicants, four received licenses a year ago: Banking Information Technologies (Tula), Urals Financial Group (Chelyabinsk), Moscow Clearing Center and Interbank Financial House (Moscow). The first three, which chose the option of clearing within the boundaries of the limits, are operating smoothly but not very profitably. The IFH, which chose the alternative way, still is not in operation.

This chamber did not start clearing operations for technical reasons. The point is that the Moscow region carries a tremendous clearing load. Operations in the capital close at 1900, and participants in the clearing session can only learn at 0700 of its results. It is easy to imagine the players' consternation if it turns out that through the fault of one of them, the results of yesterday's operations had been voided. Thus, the IFH can only hope that Moscow will finally be able to cut the information processing time.

The reason for modest profit margins in clearing operations is the fact that clearing chambers are not licensed to issue credit and attract money from the market, and hence are not able to pay interest on the account balance. In competition for clients, they are compelled to set quite ridiculous prices.

When they began to modernize, some CBR territorial administrations in the past purchased equipment from foreign companies, without giving any particular thought to how difficult it would be later to integrate their networks into a single all-Russia system. Now the CBR has to apply all its ingenuity to making the incompatibles work together. Nevertheless, the banking system computerization group, headed by *Igor Dubrovo, director of the CBR computerization department,* hopes to accomplish this in cooperation with his American colleagues. Next year the Bank of Russia intends to put into operation a segment of its own Banker Satellite System, which is already being tested on an experimental basis on a leased satellite. Banker's control center will be located in the environs of Klin near Moscow.

As MKK groups progressed in their development work, the bankers realized the need to create national standards for electronic banking communications formats, which other state organizations are planning to use later. The question of forming of a respective group in the committee, which would bring in specialists from the State Committee for Standards and the tax service, was discussed at the December meeting in St. Petersburg. The bankers agreed that the Russian system of formats should be based on the S.W.I.F.T. [Society for Worldwide Interbank Financial Telecommunications] formats (today more than 200 banks in the country are linked with this international system). In the future it will permit the Russian national system of electronic communications to integrate relatively easily into the international one.

Andrey Kozlov, chief of the Central Bank of Russia's securities department, shared with KOMMERSANT the results of the work of the committee's group on new payment instruments. He believes that Russia currently is experiencing a "card boom." The analysis of the status of accounts for the purpose of counting the funds deposited in the banks for the use of plastic cards shows that over the past seven months legal entities' funds increased from R3.15 billion to R96.63 billion (30-fold), and physical persons—from R310 million to R107.2 billion (almost 346-fold).

Russia currently already has its own major debit card systems. However, practice shows that only major banks with an extensive network of offices are capable of handling such a task. The examples of systems using state-of-the-art—by international standards—technologies based on the SmartCard and (or) a microprocessor: The Krona inter-regional bank card clearing system, initiated by the Siberian Trade Bank, and the Optimum Card, issued by the Optimum Bank. At the same time, economic conditions encourage organizations to create closed-loop systems within one region, since plastic cards can help to alleviate the shortage of cash. The advantage of regional card clearing systems is, in Andrey Kozlov's opinion, the fact that they are oriented toward all population strata. When cards are serviced on a mass scale, the overhead costs of setting up and servicing a clearing system are considerably reduced. In the systems oriented toward high-income customers, the use of cards is quite costly, both for the holders and the issuers. This narrows down the circle of potential users. Now, the researchers believe, the issuers will be able to break the vicious circle and put their systems into mass-scale use only by deliberately taking a loss on lowering the card service fees or by reducing the amount of the mandatory deposit requirement on card accounts. The group's specialists believe that the future in Russia belongs to chip-based cards, which free the owners from the necessity of having the card authorized by way of the store clerk calling the processing center on the phone, using telephone lines which are, alas, as unreliable as our roads.

Chernomyrdin, Paramonova Address Banking Conference

954E0420A Moscow DELOVOY MIR in Russian 19-25 Dec 94 p 6

[Report on speech by Viktor Chernomyrdin: "The Banking System Will Play a Decisive Role" and Tatyana Paramonova, acting chairman of the Central Bank of the Russian Federation: "We Shall Continue a Strict Policy" under the general headline: "Small and Medium-Sized and Large and Not Only in Moscow"]

[FBIS Translated Text] *The third international conference devoted to the development of banking in Russia was held in the President Hotel in the capital. Its organizers were the Association of Russian Banks, the Central Bank of the Russian Federation, the Association of American Bankers, and the Association of Banks of Great Britain and Ireland.*

Russian Federation President Boris Yeltsin welcomed participants in the conference. Speaking at it were U.S. Ambassador in Moscow Thomas Pickering, President of the Federal Reserve Bank of Minneapolis Gary Stern, Executive Vice President of Deutsche Bank Kristman Wontz, Chairman of the Board of Nomur Bank Andreas Prindle, and others. There were six sections in operation within the conference where crucial banking problems were discussed: the development of the market for capital in Russia, trends in world banking and their utilization in country, the integration of Russian banks into international financial markets, trends in the development of banking legislation and their utilization in the Russian Federation, managing a bank and its personnel, and bank security.

Viktor Chernomyrdin: "The Banking System Will Play a Decisive Role"

Speaking at the conference, the prime minister of Russia noted that a banking system that meets market conditions has already been formed and is developing in the country. In his words, we have entered a new stage of development the essence of which is a directed emergence from the crisis. And in this situation individual measures taken by the government in various spheres of the economy are clearly not enough; it is necessary to have a comprehensive breakthrough in all directions.

In this connection the government is preparing a medium-term program for the country's development during 1995-1997. The Russian prime minister determined that the first condition for emerging from the crisis is to curb inflation. According to the government plan, this can be done by as early as 1995. Halting inflation will create favorable conditions for institutional transformations and investments.

The government has already taken the first step in this direction by developing and submitting for the consideration of the deputies the draft budget for 1995.

"It contains no easy solutions," Viktor Chernomyrdin admitted.

He explained that when forming the budget, the government realized the idea of rejecting direct coverage of the budget deficit by the Central Bank of the Russian Federation. If such a severe policy makes it possible to achieve stabilization next year, the following two years will be marked by an emergence from the crisis.

A decisive role in this process, in the opinion of the Russian prime minister, should be played by the Russian banking system. Assessing its current condition, Viktor Chernomyrdin noted as an unquestionably positive phenomenon the growth of the number of commercial banks and their branches: Just since the beginning of the year their number in Russia has increased to 700 institutions. The Russian prime minister has misgivings about the circumstance that almost one-third of the Russian banks are concentrated in Moscow, while in many regions there are only one or two banks in operation and even these perform an extremely limited range of functions.

There in the regions, in the opinion of the head of the government, it is especially necessary to have small and medium-sized banks which can serve small forms of business. At the same time the Russian economy also needs large, solid banks that are capable of extending credit for large federal programs. And these, the prime minister recognizes, already exist in Russia.

Viktor Chernomyrdin assured the participants in the conference that as it creates a program for federal development in the next few years, the government is aware that the banking system can function effectively only under certain conditions. Therefore it considers it absolutely necessary to have further development of interbank and money-currency markets, a securities market, credit auctions of the Central Bank, and stimulation of the development of diverse new forms of banking operations which will make it possible to reduce the degree of risk taken by the banks, the creation of an information base, and the development of a branch network.

The government sees its role here as the development of the necessary laws, in a number of cases directly taking advantage of its right to legislative initiative. Improvement of banking legislation, the Russian prime minister stated, will be conducted in three areas. First, further development of existing laws ("On Banks and Banking Activity," and "On the Central Bank") which form the general principles of the system. Second, the preparation of laws regulating the activity of various types of credit-monetary institutions, for example, laws on municipal and savings bank, etc. The third area has to do with the creation of a number of laws that define in detail various banking procedures.

"We are in favor of a banking system," the head of the government summed up its position, "in which universal and specialized commercial banks have the right to engage not only in classical banking operations—settlements and advancing credit to clients—but also can carry out operations on the stock market—buy bonds in various forms, and acquire shares, stocks, and certificates of shared participation. The stock market is necessary primarily to stimulate investments in the national economy, for it is a universal mechanism for mobilizing precisely investment resources through issuing shares and other securities.

The prime minister noted how crucial it is to integrate Russian banks into the world community. The fact that this process is going on, in his opinion, is demonstrated by a number of tendencies: the establishment by Russian banks of correspondent relations with their foreign colleagues, the opening of branches and representative offices of Russian banks abroad, and the inclusion of leading domestic banks in the international system of settlements.

Viktor Chernomyrdin confirmed the unchanging nature of the policy of the Russian Government regarding the presence of foreign banks in the Russian market. According to the prime minister's statement, a number of restrictions on them on the territory of Russia will remain for a certain amount of time, since the young domestic banking system needs to get firmly on its feet.

Tatyana Paramonova, acting chairman of the Central Bank of the Russian Federation: "We Shall Continue a Strict Policy"

As of 1 December there were 2,486 banks registered in Russia (at the beginning of the year there were 2,018), 984 of which have licenses to conduct currency operations, and 231—a general license.

According to figures from the Central Bank of the Russian Federation, the process of concentration of banking capital is continuing in Russia: The number of banks whose authorized capital exceeds R1 billion has increased 4.8-fold, while the number of those with authorized capital of less than R100 million has decreased threefold. The total declared capital of Russian commercial banks as of 1 November amounted to R6.3 trillion. Nonetheless the largest proportion in the Russian banking system is taken up by banks with authorized capital of from R100 to R500 million.

The overall volume of credit issued by Russian banks as of 1 November of this year is calculated at R60.5 trillion, which is 2.4 times more than it was as of this date last year.

The situation with repayment of credit has deteriorated in the banking system: The overall volume of defaulted indebtedness as of 1 November was equal to R13.7 trillion, which is 23 percent of all the credit granted. In certain banks defaulted indebtedness reaches 90 percent but, as a rule, such an "avalanche" is caused by issuing credit without taking into account the borrower's credit history or by a personal decision of the bank manager.

The main source of the formation of bank resources now are funds enlisted on the interbank market, but bank resources are also actively augmented by attracting deposits from the population. The Central Bank notes a dangerous tendency in this area: In more than 500 Russian banks the deposits of the population exceed the authorized capital of the banks, which undoubtedly increases the degree of risk. In this connection the Central Bank of the Russian Federation suggests introducing a policy of looking over the bank's balance sheet before granting it permission to attract deposits from the population.

Among the resources of commercial banks, centralized credit from the Central Bank makes up about 25 percent, and approximately one-fifth of this is not repaid on time.

The Central Bank thinks that at the present time the banks should step up the process of reserving for loans. The success of this process is being impeded, in the opinion of the Central Bank, by the instruction from the tax service to create loan funds not before taxation, but after it, which actually deprives the banks of the possibility of forming adequate reserves. The Central Bank has appealed to the chairman of the government with a request to instruct the Ministry of Finance and the tax services to revise this decision.

The Central Bank of the Russian Federation is also disturbed by the desire on the part of commercial banks to expand their activity through investing money in the authorized capital of commercial structures. Not only has 23 percent of the paid authorized capital of the banks themselves gone into this reservoir, but sometimes the funds of the investors flow into it. The Central Bank thinks that significant restrictions should be established in this sphere of the utilization of the authorized capital of the banks.

The nine months of this year ended with losses amounting to about R1 trillion for 23 percent of the commercial banks. The reasons were the failure to repay credit, the underpayment of income in the form of interest on credit, and also the risky credit policy. Because of this, during January-October the Central Bank of the Russian Federation revoked the licenses of 52 banks and seven banks were given instructions to limit their range of currency operations.

Termination of the activity of banks has ceased to be an extraordinary occurrence and therefore the Central Bank suggests creating a reasonable, economically substantiated system of insuring deposits.

The question of the Savings Bank of Russia, whose obligations are guaranteed by the state, requires an immediate solution. And in the meantime the bank is pursuing a very risky policy, as though it were an ordinary commercial bank that bears full responsibility itself.

In Ms. Paramonova's opinion it is necessary to develop a ratio between principles of universality and specialization in the Russian banking system. Under the conditions of the instability of the financial market, universal banks end up in more advantageous conditions, but there are a number of spheres in the economy to which credit can be granted only by specialized banks. Therefore the Central Bank considers it expedient to provide conditions for encouraging mortgage, savings, and other specialized banks. The Central Bank also considers it necessary to limit the range of operations conducted by municipal and regional banks that use state funds.

The Central Bank is in favor of the creation of banking holding companies and financial-industrial groups and in favor of merging banking and industrial capital which, in its opinion, will contribute to an influx of investments into industry.

The position of the Central Bank regarding the presence of foreign banks in Russia is different from the government's position. The restrictions should be removed. In the first place because, according to Tatyana Paramonova, Russian banks need competition and, in the second place, because foreign investments are drawn into Russia through foreign banks.

Next year the Central Bank intends to continue a moderately severe course of the credit-monetary policy. Among the complex of measures envisioned in this area the Central Bank, in agreement with the government, is suggesting refraining from covering the proposed R72 trillion budget deficit with direct infusions and doing this through the issuance and distribution of state securities.

Mass Bankruptcies Threaten Banks

954E0323A Moscow FINANSOVYYE IZVESTIYA in Russian No 63, 8 Dec 94 pp 1-2

[Article by Lev Makarevich, Association of Russian Banks expert: "The Threat of Mass Bankruptcies Comes to the Banks"]

[FBIS Translated Text] **If** one is to believe the Central Bank, almost a quarter of Russian commercial banks have, based on the results of the first ten months, finished their work with losses. About 200 commercial banks don't have funds in correspondent accounts. Approximately 100 are in a critical situation and the question of the loss of their licenses is being considered. Already dozens of banks have become bankrupt in the last two to three years. And the leaders adorning the top lines of the published ratings have found themselves in a debit balance more than once in recent months.

In many respects this is an objective result. If industry is perishing and the country depends more and more on imports, the banks cannot prosper. The drop in production, which reached almost 60 percent in 1994 as compared with 1991, will continue, according to very realistic estimates, also over the next three years—as much as 8 percent in 1995, 6 percent in 1996, and 2-4 percent in 1997.

The debit indebtedness of enterprises increases by 10-12 percent monthly and now exceeds 130 trillion rubles. The growth rates of overdue indebtedness are even higher—21 to 23 percent and its share in total indebtedness has exceeded 50 percent. The solvency of producers (the correlation of monetary funds and overdue indebtedness) has sunk to the catastrophic. In transportation—to 23.1 percent (as compared with 96.2 percent in January), in industry—to 20.7 percent (as compared with 50.7 percent), construction—to 18.1 percent (41.7 percent), and agriculture—to 17.1 percent (43.6 percent).

This has hit the banks hardest of all. The indebtedness to them on loans issued reached R33 trillion in October. R4.5 trillion of it, or 14 percent, was overdue, which was 1.5 percent more than in September. The worst debtors are the textile, timber, pulp and paper and wood processing, shoe, coal and light industries.

Many of the enterprises in these sectors are shareholders of very large banks, primarily regional ones. Having become bankrupt the shareholders have also brought the commercial banks to destruction. Without exaggeration, hundreds (!) of proposals from provincial commercial banks to buy them (together with all debts, naturally) rest today in certain Moscow banks. Some of the Moscow "grandees" go for this with the idea of obtaining access to local resources, including financial, in the future, being not at all interested in what their basic transactions are and whether the oblast or republic is a money donor, a capital surplus region, or a "vampire" living on external monetary infusions? Unpleasant discoveries are often made too late.

Other mistakes are also being made. The constant threat of a fall in the exchange rate of Russian money results in the fact that such a widely practiced operation as the acceptance of deposits in freely convertible currency, its expenditure in binges in related structures and the payment of high ruble interest rates to depositors end in a financial spin for many medium-sized and small banks that don't have a foreign currency license, as a rule, several times higher than the current rates of inflation. There are no reliable niches with a suitable profit norm on the market now. And few of those available have "caught on" solidly for long. One can set them in motion only with the help of the OMON (special purpose militia detachment) or the mafia.

"Pyramids"—the payment of interest on deposits and dividends on securities to the first investors at the expense of those who come last—are extremely dangerous. There are not enough credulous citizens for every builder of such structures and the flow of funds ends very quickly.

Such structures are also extremely fragile because of the very high (hundreds of times) overvaluation of the dollar in Russia. The current exchange rate correlation—about R3250 to the dollar—is essentially a constantly increasing super-tax which the state collects from its subjects through intermediaries (in addition to the inflationary one). Moreover it is openly extortionate. If one compares the gross domestic product of Russia and the USA, the quotation ought to be approximately R300 to the dollar. If one is to compare commodity convertibility, then it is R150 to the dollar.

With investment in Russian real estate and land the correlation generally changes to the reverse: R1 of investments can yield $5-6. And this given the fact that in Russia, in contrast to the United States, there are no markets for the land, real estate, natural resources and many other things which serve as the basic material backing of currency.

Since the real price of the ruble, one of the basic assets of a bank, is unknown, all their liquid funds are actually highly risky. Even the formally most reliable—cash and resources equivalent to it, funds in correspondent accounts, funds in a reserve account. And at the same time absolutely all government securities denominated and quoted in rubles. It is no accident that the Central Bank of the Russian Federation up till now categorically refuses to accept them as required reserves. It goes without saying also about corporate securities. It's not for nothing that the Central Bank limits the participation of commercial banks in the authorized capital of other joint-stock companies to 10 percent.

The hunt for budget money and centralized loans turns out to be a trap for many banks. Or—as a variation—counting on clients or partners who theoretically or in practice have access to federal, oblast, and municipal sources, subsidies and benefits. Among the partners are various organs of power, authorized banks, individual bureaucrats, politicians, etc., who in any contingency, as is to be anticipated, always get cheap loans and free resources.

This is real Russian roulette. Now all Russia—industries, regions, the population—stands in line for state support. Since the economy is inefficient it wastes more than it earns. Moreover, more than half of what is earned is concealed. Those who get them first, second-...last follow every legally circulating ruble or loan intently. Millions of well-informed and watchful citizens, deputies, and organizations who are ready to demand every kopeck spent that by-passes them. The attempts of the banks to proceed without the line are exposed and punished sooner or later.

In addition, the bureaucrats are in the habit of taking to drink and of selling themselves at a higher price to other buyers. They are able to not re-elect politicians. A region, industry, enterprise—to not obtain promised state funds and even treasury bills instead of them. In business, especially the banking business, where everything is rigidly connected by time periods, obligations, guarantees, and sanctions, any snag turns into the threat of losses or bankruptcy. This exactly what is being observed.

Not all banks are prepared to quietly work with their own, though at first modest resources. To increase the potential patiently and gradually. For the majority there is simply no time to wait. Especially when the Central Bank constantly increases the minimum authorized capital for banks and manipulates the discount rate. They press competitors, squeezing out of the financial services market and enticing shareholders and clients.

There is no time even to hesitate because in actual fact there is totally free money in circulation. The very same that has been concealed from the treasury, converted, exported and is being repatriated back. And foreign as well, including "dirty" money since no legal and profitable "garden beds" have been left for it at home. In a word, take, spend, invest as much as you like.

Nine required normatives for the banks hinder making use of the treasure house. First of all, the rigid correlation between internal funds and accounts payable (for different commercial banks the proportion fluctuates from 1:15 to 1:25). How are the Russian financiers proceeding? They (from a fourth to a half) spit on the coefficients and handle assets tens and hundreds of times greater than their own resources. They repeatedly exceed the limits for a single debtor, who frequently is as much an adventurer as the banker who is making him a loan. And frequently sooner than later they both go to the bottom, carrying along their associates as well.

Not a few banks have ruined themselves recently on the tactic: "sell money cheap to one's shareholders and clients and at a higher price to others." Only a few commercial banks managers have had enough courage to come to an agreement with the shareholders (and to include a clause in the contract). Without exception all loans are being issued at a price no lower than the refinancing rates.

Unfortunately it is not unusual for marketing, an audit, technical and economic feasibility, and a financial or business plan to be replaced by intuition and hopes for a lucky hit. A bank's loan and investment committee is based on the voluntary principle. As a result more than one-third of the loan portfolio of the majority of Russian banks is made up of overdue loans, which are leading the commercial banks ever closer to mass bankruptcies.

Federal Law on Deliveries of Products for State Needs

954E0357A Moscow ROSSIYSKAYA GAZETA in Russian 21 Dec 94 p 5

["Federal Law on Production Deliveries for Federal State Needs, Adopted 10 December 1994 by the State Duma"]

[FBIS Translated Text] This federal law establishes the overall legal and economic principles and procedure for the formation, placement, and use on a contract (agreement) basis of orders for the purchase and delivery of products, work, and services (henceforth—production) for federal state needs, by enterprises, organizations, and institutions located in the Russian Federation, regardless of form of ownership.

Article 1. PRODUCTION DELIVERIES FOR FEDERAL STATE NEEDS

1. Federal state needs constitute production requirements of the Russian Federation necessary for accomplishment of the tasks of life sustenance, defense, and security of the country, and for the implementation of federal special-purpose programs and interstate special-purpose programs in which the Russian Federation participates (henceforth—federal special-purpose programs).

Production deliveries for federal state needs are secured through funds of the federal budget and nonbudget fund sources attracted for these purposes.

Federal state needs, including the listing of federal special-purpose programs, and their volumes of federal budget financing are stipulated in the federal law on the federal budget for the planning period.

With the aim of ensuring the accomplishment of especially important overall state tasks, federal special-purpose programs may be assigned the status of presidential programs, the initiator of which is the Russian Federation president.

2. Production deliveries for federal state needs are carried out with the following aims:

to establish and support the state material resources of the Russian Federation:

to support the necessary level of defense capability and security of the Russian Federation;

to guarantee export production deliveries in fulfillment of international economic obligations of the Russian Federation, including currency and credit obligations;

to implement federal special-purpose programs.

3. The production requirements of Russian Federation entities needed to accomplish the tasks of life sustenance for the regions and to implement regional special-purpose programs (production deliveries for regional needs) are determined by the organs of state authority of Russian Federation entities in accordance with the general principles and provisions of this federal law.

Production deliveries for regional needs are secured through budget funds of Russian Federation entities and nonbudget fund sources attracted by them for these purposes.

Federal special-purpose programs in which interregional and regional special-purpose programs are included are financed through funds of the federal budget and funds of the budgets of Russian Federation entities, as well as through the attraction of nonbudget sources.

4. Relationships arising in connection with the purchases and deliveries of agricultural production and foodstuffs output for federal state needs are regulated by a special law.

Article 2. BASIC PRINCIPLES OF THE DEVELOPMENT AND IMPLEMENTATION OF FEDERAL SPECIAL-PURPOSE PROGRAMS

1. The development of federal special-purpose programs is organized by the federal organs of executive authority.

Procedure for the development and implementation of federal special-purpose programs is determined by the Russian Federation Government.

2. The development of federal special-purpose programs must envisage the following:

the accomplishment of priority socioeconomic, defense, scientific-technical, environmental protection, and other extremely important tasks;

the coordination of financial, material, and labor resources with the aim of attaining their most effective use;

integration and economic security with respect to the measures developed;

coherence in the accomplishment of federal and regional tasks;

attainment of the required end result within the established time frame.

Article 3. FORMATION OF ORDERS AND PLACEMENT OF PRODUCTION DELIVERIES FOR FEDERAL STATE NEEDS

1. In organizing the effort to implement federal special-purpose programs and guarantee production deliveries for federal state needs, the Russian Federation Government approves state clients.

A state client may be a federal organ of executive authority, federal treasury enterprise, or state institution.

Orders for the fulfillment of federal special-purpose programs and orders for purchase and production delivery to secure federal state needs are placed with enterprises, organizations, and institutions (suppliers) through the conclusion of state contracts by state clients.

State clients may transfer to appropriate enterprises, organizations, and institutions, on a contractual basis, the implementation of a portion of their functions, under conditions stipulated by the Russian Federation Government in its confirmation of state clients.

2. State clients are provided financial resources in an amount established by the federal budget, and they are responsible for the implementation of federal special-purpose programs and for provision of support to federal state needs.

The Russian Federation Government affords guarantees with respect to state client obligations within the limits of funds allocated out of the federal budget.

3. The state contract determines the rights and obligations of the state client and supplier with respect to supporting federal state needs, and regulates the relationship between supplier and state client in implementing the state contract.

The state contract may provide for supervision on the part of the state client over the course of work accomplished in implementing the state contract and the provision of consultative or other assistance to the supplier, without interfering in the operational-managerial activity of the latter.

Upon decision of the Russian Federation Government, the state client may enter necessary changes to the state contract or terminate the validity of the state contract under the condition that he reimburse suppliers for losses in accordance with existing legislation.

4. Production delivered by state contract must conform to the mandatory requirements of state standards and to special terms established by this contract.

Mandatory requirements include production quality requirements which ensure product safety with regard to the lives and health of the populace, environmental protection, compatibility, and interchangeability of production.

The acquisition of foreign production output during fulfillment of a state contract is not permitted, with the exception of instances where the output of similar production varieties in the Russian Federation is impossible or economically unfeasible.

5. Proceeding from state interests, state clients ensure the placement of orders for production deliveries for

federal state needs through the conduct of open and (or) closed trading sessions, competitions, and auctions.

6. The procedure for purchases and production deliveries for federal state needs is established by the Russian Federation Government in accordance with this federal law and other legislative acts of the Russian Federation.

7. For federal treasury enterprises, the Russian Federation Government may, when necessary, introduce a regime of mandatory conclusion of state contracts for production delivery for federal state needs.

Article 4. INCENTIVES FOR PRODUCTION DELIVERIES FOR FEDERAL STATE NEEDS

1. With the aim of providing economic incentives to suppliers of production for federal state needs, they may be afforded tax benefits with respect to profits (income) tax, special-purpose grants and subsidies, and credits on preferential terms.

The procedure for affording economic and other benefits is established in accordance with existing legislation.

2. With the aim of providing economic incentives to suppliers who are effecting production deliveries in support of the required level of defense capability and security of the Russian Federation, special quotas (state-reserved) may be established for manufacturers of the most important types of material-technical resources, for the mandatory sale of these resources to state clients and suppliers.

The procedure for determination of the listing and volumes of material-technical resources subject to state reservation is established by the Russian Federation Government.

Article 5. RESPONSIBILITY FOR FAILURE TO FULFILL STATE CONTRACTS FOR PRODUCTION DELIVERIES FOR FEDERAL STATE NEEDS

1. In the event of failure on the part of one of the parties to fulfill or properly fulfill the obligations stipulated in a state contract, this party:

reimburses the other party for losses incurred as a result;

bears other responsibility as established by Russian Federation legislation and the state contract.

2. Suppliers who have a monopoly over the production of certain types of output do not have the right to reject the conclusion of a state contract unless placement of the order would entail losses due to this production.

If a supplier evades conclusion of a state contract for production deliveries for federal state needs without justification, in instances where responsibility for concluding a contract is established by this federal law, the supplier pays the purchaser a fine in the amount of the cost of production determined in the draft contract.

3. In the event a supplier fails to fulfill a state contract for the proper production volume within the time frame prescribed by the state contract, he pays the purchaser a forfeit in the amount of 50 percent of the cost of the undelivered production. The forfeit is exacted prior to the actual fulfillment of obligations taking into account the undelivered volume of production for the previous delivery period. For failure to fulfill state contract obligations, the supplier will reimburse the purchaser for losses incurred in addition to payment of the forfeiture amount.

Production output which does not meet the requirements stated in Point 4 of Article 3 of this federal law, as well as that which is incomplete, is considered undelivered.

4. The state client has the right to refuse (wholly or in part):

output produced in accordance with a state contract, under the condition that he fully reimburse the supplier for losses incurred in accordance with existing legislation;

to pay for production output that does not meet the requirements established by legislation for determination of product quality or requirements stipulated in the state contract.

5. Disputes arising between a state client and a supplier during the conclusion, amendment, annulment, or fulfillment of a state contract for production deliveries for federal state needs, and disputes concerning reimbursement for losses incurred, are examined by a court of arbitration in accordance with applicable legislation.

Article 6. PROCEDURE FOR IMPLEMENTATION OF THIS FEDERAL LAW

1. This federal law enters into effect as of its date of official publication.

2. The following are acknowledged as no longer in effect: the Russian Federation Law on Deliveries of Production Output and Goods for State Needs, 28 May 1992 (VEDOMOSTI SYEZDA NARODNYKH DEPUTATOV ROSSIYSKOY FEDERATSII I VERKHOVNOGO SOVETA ROSSIYSKOY FEDERATSII, 1992, No. 27, Art. 1558); Decree of the Russian Federation Supreme Soviet on Procedure for Implementation of the Russian Federation Law on Deliveries of Production Output and Goods for State Needs, 28 May 1992 (VEDOMOSTI SYEZDA NARODNYKH DEPUTATOV ROSSIYSKOY FEDERATSII I VERKHOVNOGO SOVETA ROSSIYSKOY FEDERATSII, 1992, No. 27, Art. 1559).

3. The Russian Federation Government shall, within two months:

bring normative legal acts it has adopted into conformance with this federal law;

ensure that ministries and other federal organs of executive authority repeal their normative acts which contradict this federal law.

[Signed] President of the Russian Federation
B. YELTSIN
Moscow, the Kremlin
13 December 1994
No. 60-FZ

Federal Law on State Foreign Borrowing, Granting Credits

954E0399A Moscow ROSSIYSKAYA GAZETA in Russian 29 Dec 94 p 4

["Federal Law on State Foreign Borrowing of Russian Federation and State Credits Extended by Russian Federation to Foreign States, Their Legal Entities and International Organizations, passed by State Duma on 7 December 1994, approved by Federation Council on 17 December 1994"]

[FBIS Translated Text]

Section 1. State Foreign Borrowing of the Russian Federation The state foreign borrowing of the Russian Federation consists of the credits (or loans) obtained from foreign sources (foreign states, their legal entities, and international organizations) and entailing state financial obligations for the Russian Federation as the borrower of the funds or the guarantor of the repayment of these credits (or loans) by other borrowers.

The amounts borrowed by the Russian Federation from foreign states make up the state foreign debt of the Russian Federation.

Section 2. State Credits Extended by the Russian Federation to Foreign States, Their Legal Entities, and International Organizations

State credits extended by the Russian Federation to foreign states, their legal entities, and international organizations are credits (or loans) entailing financial obligations for foreign states, their legal entities and international organizations to the Russian Federation as the creditor.

These state credits make up the state foreign (or overseas) assets of the Russian Federation.

Section 3. Legal-Contractual Basis of State Foreign Borrowing of the Russian Federation and Extension of State Credits by the Russian Federation

The state foreign borrowing of the Russian Federation and the extension of state credits by the Russian Federation to foreign states, their legal entities, and international organizations will be conducted by the Government of the Russian Federation on the basis of international treaties, civil-legal agreements, and the guarantees of the Russian Federation or the Government of the Russian Federation.

These treaties and agreements, including the guarantee of credits (or loans), may also be concluded by federal agencies of the executive branch of government or by Russian legal entities if they are authorized to do this by a decree of the Government of the Russian Federation.

Section 4. Limits on State Foreign Borrowing of the Russian Federation and Limits on State Credits Extended by the Russian Federation

The limits on the state foreign borrowing of the Russian Federation will be approved annually in a federal law stipulating the maximum amount of the credits (or loans) listed in Section 1 of this federal law to be used in the next fiscal year. The limits on the state foreign borrowing of the Russian Federation usually will not exceed the annual amount of payments on the interest and principal of the state foreign debt of the Russian Federation.

The limits on state credits extended by the Russian Federation will be approved annually in a federal law stipulating the maximum federal budget expenditures on the extension of the state credits (or loans) listed in Section 2 of this federal law in the next fiscal year.

The limits on the state foreign borrowing of the Russian Federation and state credits extended by the Russian Federation will not include credits extended to, or amounts borrowed from, other members of the Commonwealth of Independent States. The amounts of these credits and loans will be stipulated in the federal law on the federal budget.

The proposed limits on the state foreign borrowing of the Russian Federation and limits on state credits extended by the Russian Federation will be submitted by the Government of the Russian Federation at the same time as the draft federal law on the federal budget for the next fiscal year. These proposals will include a program drawn up by the Government of the Russian Federation with regard to the state foreign borrowing by the Russian Federation and the extension of state credits by the Russian Federation for the appropriate year, with separate entries of all credits (or loans) equivalent to more than $100 million.

Section 5. Amendment of Limits on State Foreign Borrowing of the Russian Federation and Limits on State Credits Extended by the Russian Federation. International Treaties on Credits (or Loans) Requiring Ratification

International treaties and civil-legal agreements, including credit (or loan) guarantees, entailing amounts exceeding the limits established in accordance with Section 4 of this federal law, may not be concluded until the appropriate changes have been made in the federal law specifying these limits.

An international treaty on the attainment or extension of state credits (or loans), including credit (or loan) guarantees, will require ratification in the following cases:

—if the credit (or loan) envisaged in the treaty is not included in the program referred to in Section 4 of this federal law, and the amount to be obtained or extended is equivalent to more than $100 million;

—if compliance with this treaty will require the adjustment of the limits set in accordance with Section 4 of this federal law;

if ratification is required on other grounds specified in laws of the Russian Federation.

Section 6. Unified System for Recording and Registering State Foreign Borrowing of the Russian Federation and State Credits Extended by the the Russian Federation

The Russian Federation will have a single system for recording and registering the state foreign borrowing of the Russian Federation and the state credits extended by the Russian Federation to foreign states, their legal entities and international organizations, and this system will be under the jurisdiction of the Russian Federation Ministry of Finance.

The procedures for recording and registering these loans and state credits will be defined by the Government of the Russian Federation.

Section 7. Enactment

This federal law will go into force on the date of its official publication.

[Signed] B. Yeltsin, President of the Russian Federation
Moscow, The Kremlin
26 December 1994
No 76-FZ

DELOVOY MIR Data on Bank Rating to 1 December

954E0434A Moscow DELOVOY MIR in Russian 19-25 Dec 94 pp 4, 5

[Interview with Grigoriy Afanasyev, executive director of Pervyy russkiy bank; place and date not given: "Rating Reliability of Banks"]

[FBIS Translated Text] **DELOVOY MIR regularly covers the topic of the ranking of commercial banks according to various parameters. The ranking of bank reliability has turned out to be so interesting to the readers and the changes in the positions of the bank structures so dynamic that we have decided to change to monthly publication of the list of reliable banks. The immense rush of responses from people who attentively follow these articles convinced us of the need to prepare a series of interviews with leaders of the most dynamically developing banks that are increasing their reliability against a background of mass bankruptcies. Today we are listing the banks included in the middle reliability group B2 as of 1 December 1994.**

Avtoselkhozmash
Aleks
Aura-bank
Aeroflot
Viza
Vitas
Germes-Tsentr
Glavmosstroybank
Globeks
Diskont
Yevrokosmos
Yevropeyskiy torgovyy bank
Zheldorbank
Zelak-bank
Ibes
Interbank
Interprogressbank
Inturbank
Ironbank
Irs
Kontakt
Kontinent-bank
Kristalbank
Lanta-bank
Mass Media bank
Mashbank
MBRiR
Metallinvestbank
Mir
Moskoviya
Mosstroyekonombank
Mostransbank
Moseksibank
MPI-bank
Nefteprombank
Neftyanoy
Novator
Novyy simvol
Olimpiyskiy
Orbita
Paritet
Pervyy investitsionnyy
Pervyy professionalnyy bank
Pervyy russkiy bank
Petrokommertsbank
Premyer
Printbank
Rokabank
Roslesinterbank
RSKB
Russkiy kreditnyy bank
Russlavbank
REA-bank
SDM-bank
Stroysevzapbank
Suprimeks-bank
Tempbank
Toribank
Transkredit
Finist-bank
Khimbank

Tsentrokredit
Chasprombank
Elektronika
Ekskado
Yakimanka

The name Pervyy russkiy bank has appeared in the B2 group for the first time. This bank is among the largest in Russia. According to the tables of the Reyting Information Center published in our weekly edition (see the preceding issues for this year) based on figures for 7 January 1994, Pervyy russkiy bank holds 141st position among the largest banks of Russia in terms of assets, 137th position in terms of the amount of its capital, and 96th position in terms of the profitability of its assets.

Our reference information. The joint-stock bank Pervyy russkiy bank was founded on 1 September 1992 as a private joint-stock company. In February 1993 it received general license No. 1965. Since June 1994 Pervyy russkiy bank has been an authorized bank for serving specialized exporters. Effective in August the bank was granted permission to conduct operations with precious metals: gold and silver. The bank is an official dealer of the Central Bank for state short-term obligations. As of 1 October 1994, its authorized capital was R2 billion. At the present time, it is being expanded to 15 billion.

Questions about the principles and style of the bank's work and how it has managed to increase its reliability against a background of the deterioration of market conditions, aggravation of competition in the banking business, and acceleration of the process of banking bankruptcies are answered by the director of Pervyy russkiy bank, Grigoriy Afanasyev.

[DELOVOY MIR] Grigoriy Anatolyevich, in keeping with tradition, the first question in our column is: How do you feel about organizations that engage in all kinds of classifications? Do the ratings that have appeared give you any help in making decisions?

[Afanasyev] Every banker has his own personal rating of the banks. But more and more frequently when making decisions bankers are oriented toward various lists of reliable banks, instead of "reinventing the wheel." As for the classification of the Reyting Information Service, as of today certain large banks that are actively operating on the interbank market, I have heard, are even establishing credit limits according to this evaluation. This occurs as follows: By a decision of the board, credit limits are established for each reliability group. Some banks that grant credit will not work at all with banks that are located below a certain group on the list, for example, B1. Even their financial documents are not taken into consideration. As for the influence of the classifications on decisionmaking, my personal opinion is that they help a great deal. Moreover, it is always possible to ask Reyting for additional information and learn the state of affairs as of the current moment. This kind of easy access to up-to-date information helps considerably, and it distinguishes this rating agency advantageously from the others whose lists are outdated before they appear in the press.

A Serious Bank "Does Not Try To Feed You a Line"

[DELOVOY MIR] The bank is no longer so young, it has been in existence for more than two years, but, it seems to me, few people know much about it. Do you really not need clients?

[Afanasyev] It is my firm conviction that there is no point in waging an advertising campaign until there is something to advertise. A serious bank does not try to feed you a line with advertising but knows precisely the result that each advertising signal will produce. But it frequently happens in practice that the technological infrastructure is not yet ready to conduct the operations that are widely advertised. Crowds of clients come and form long lines, and the bank simply cannot manage to serve them. As a result, the entire effect of the advertising is lost: The people have come for the promised service, and the bank is not prepared to sell it in a normal way.

Today, after two years of operation, we feel fairly confident. We know for sure that we will indeed be able to do what we advertise, and we are answerable for every line of advertising. Any operation that is mentioned the bank can actually conduct at the proper level and without any waiting lines or red tape.

The technology that has been created is constantly being improved. We get the bugs out of any system for a month or two inside the bank, and then we invite clients to use it.

[DELOVOY MIR] And how did the name Pervyy russkiy bank come about?

[Afanasyev] There were many versions. The first one was a nice foreign name, FIRST RUSSIAN BANK, and it has no chauvinistic overtones. The Western ear is accustomed to hearing this phrase. In the United States, for example, practically every bank is "first": "First National...," "First Federal...," "First American..." if I am not mistaken, is the name of eight banks.

In general, in my opinion, the name of a bank should meet three basic criteria: It should be neutral, fairly short, and comply with international standards for names of such institutions.

In general, we have suffered for the bank's name. First of all, there was confusion with the First Russian Independent Bank. Especially in work with international settlements. In 1992, when we first began to operate, payments intended for us were frequently sent to the wrong address. There were mistakes in the newspapers, and distorted information even came from the exchange center of Tveruniversalbank: Briefly, the First Russian Independent Bank was called First Russian I. Bank, and then this "I" disappeared somewhere, which, frankly, impeded our work. Now it is no longer possible to confuse us with anyone else.

[DELOVOY MIR] Why was that kind of heraldry chosen as the bank's symbol?

[Afanasyev] It is a stylized eagle, which reminds one of the Russian seal: one head looking to the East and the other to the West. The keys symbolize banking and the shield, protection of the clients' interests.

We Do Not Want to Be a Narrowly Specialized Bank

[DELOVOY MIR] In a market economy, there is such a concept as finding one's niche. There are universal banks, specialized banks, independent banks, and banks created for supporting corporate interests of certain financial-industrial groups. Where is your niche today and the anticipated position of the bank with the future development of the market?

[Afanasyev] Today, Pervyy russkiy bank is operating according to the principle of universalization of activity and independence, and it is oriented toward large clients. The cornerstone of our policy was laid during the period of the bank's founding. Its strategic directions for development have remained principally the same. Practice and the success that has accompanied it have shown that the bank is on the right track. Changes related to flexibility of tactical tasks and means of achieving goals that have been set undoubtedly have their place, but we are not making any plans regarding narrow specialization, or entry into one of the financial-industrial groups and serving the interests of this group, or departing for some one relatively specialized market.

We are now searching actively for our own market niche, but to close ourselves off today, during a period of dynamic changes, in some one section of banking activity would mean to lose the flexibility that is so necessary for any developing structure. We know the directions in which it makes sense to develop. But let me emphasize once again that we do not want to be a narrowly specialized bank.

[DELOVOY MIR] In order to evaluate how firmly the bank is on its feet, it is necessary to know the sources of its resources. What resources does the bank take advantage of?

[Afanasyev] First of all, the residuals in the accounts of clients, deposits, and interbank loans—mainly short-term (from one day to two weeks).

There Is Never Enough Money

[DELOVOY MIR] Is the bank experiencing a resource famine?

[Afanasyev] There is never enough money. The whole question is how costly the resources are. The least costly are residuals in clients' accounts. Work is being done today to expand the channels for acquisition of such resources. The client base itself is, in principle, reliable. But, in terms of possibilities and the reserve capacity the bank has for active operations, the scope of the client base holds back development somewhat.

Toward the end of the fiscal year, there is a regrouping of forces among the banks and a struggle for redistribution of the clients' funds. The main inconvenience is that the constantly changing legislative rules of the game force the client to constantly revise the directions of his own policy for development, which leads to redistribution of part of the pie among the banks. As for the clients, all of them confirmed a month before the end of the fiscal year that they would leave their accounts with us.

As for the proportion of interbank credit in the bank's resource portfolio, during the first three months of its existence, that took up a considerable proportion, but then it receded into the background of the overall volume of liabilities. In absolute terms, the interbank credit has expanded as the bank developed, but its share in the structure of liabilities has decreased appreciably. With the development of the short money market, the proportion of short-term interbank credit increased essentially. If you look on the balance sheet at the structure of our interbank credit, you can see that our account 822 is greater than 823 since we are buying client deposits on the interbank market and we are not borrowing from banks and subsequently granting credit to clients. We are not financing a single ruble of client credit through the interbank market.

As concerns the attraction of funds from private investors, because of a whole number of considerations, the bank management does not plan to handle ruble deposits of the population. The private depositor is now risking everything for the sale of insanely high interest rates—that is not our market.

Ruble Loans Are Being Requested by Those Who Do Not Intend To Repay Them

[DELOVOY MIR] How is the bank's credit portfolio formed? To whom do you grant credit?

[Afanasyev] The basic type of borrower is the foreign trade organization. Since the beginning of this year, the bank has refused to extend credit to ruble clients, which was the result of the sharp decline of profitability of ruble operations. For practically any type of activity, rates of 180 percent annually for ruble loans are beyond the limit of profitability. Throughout the course of the bank's development, high-income ruble markets have been "eroding": At one time it was very advantageous to trade in food products but with today's interest norm this market is practically profitless. A similar situation is typical of other sectors of the commodity market as well, and, therefore, the majority of large trade organizations that receive credit from us, for example, ERLAN and the "Complex Systems" trading house, have figured out that it is better to work with reliable money to begin with, obtaining foreign currency loans at 25-35 percent. This makes it possible to plan profitability precisely and not have it be dependent on unpredictable leaps in the exchange rate of the ruble.

The situation in the market has changed: The exchange rate for the dollar used to increase fairly regularly and the high interest rate for ruble credit was justified, but now ruble loans are being requested, as a rule, by people who do not want to repay them. All serious organizations changed over to settlements in the foreign currency equivalent long ago. The bank's credit portfolio consists mainly of client foreign currency credit. Ruble credit enters in only once in a while and in small amounts.

The bank is now actively assimilating two areas of activity: loans for operations with real estate and with securities. These are now the most effective markets from the standpoint of investment of credit resources. These borrowers have accounts with us for their basic activity, and, as a rule, they are granted lines of credit. If a system for foreign currency credit has already been arranged and we know our clients well, systems for the assimilation of new markets still have to be created.

[DELOVOY MIR] Do your plans include investments in industry?

[Afanasyev] We are already making investments in industry, but very precisely and economically, buying shares in privatized enterprises with production in operation. From the standpoint of the distribution of our financial assets, we pursue two main goals: the purchase of securities as a strategic investor, the manager of an enterprise; and the acquisition of liquid securities quoted on the market for the purpose of subsequent sale—that is we are assuming the role of a portfolio investor.

As concerns strategic investment and management of production, at the present time we are considering projects that meet the following requirements: The production must be small and not capital-intensive (somewhere in the range of from $1 million to $3 million) and with fairly rapid recoupment—preferably no more than two years.

Today the bank is proceeding along the path of making real investments. The small, but, in Russia, unique production of bottles with an original design for the perfume industry, for which we granted credit, is already producing real profit for the bank. French perfumeries are happy to use these bottles for products that are then packaged and shipped to Moscow. In addition, the bank grants credit for the entire technological process, which requires an average of $1 million. With these expenditures our production cost is three to four times less than for an analogous production in France. Similar projects for the chemical industry, wood processing, and consumer goods are being developed for implementation in the near future.

In addition, in conjunction with a number of enterprises of the Ministry of Nuclear Energy and the Russian Union of Industrialists and Entrepreneurs, the bank has created a Fund for Financing Innovations that is intended to handle the movement of scientific and technical developments to the market. We already have a portfolio of realistic projects in the areas of science and technology and ventures, which will fairly quickly produce a rather high percentage of recoupment. This includes radio electronics, signaling devices, and miniequipment for the food industry, cafes, and restaurants.

[DELOVOY MIR] According to the tables of the Reyting Information Center when analyzing the absolute amounts, the range of the positions of Pervyy russkiy bank, in terms of assessments of absolute amounts, is located somewhere between 120 and 140 on the list of the largest banks of Russia. In the evaluation of indicators of effectiveness, for example, the profitability of assets (the profit/asset ratio), Pervyy russkiy bank occupied 96th position among the largest banks of Russia. Without being a "monster" of the banking business and not having immense volumes of resources at its disposal, the bank is achieving good quality indicators. What is the secret of your success?

[Afanasyev] It is people with ability and the desire to work. Most of them have a higher financial education, and they have a gift for entrepreneurship, that "invisible hand," which, as the renowned Adam Smith put it, moves development. I can say for certain that these people have found themselves in the banking business.

[DELOVOY MIR] How do you select your cadres? What helps you to make the correct choice of people to whom you can entrust management?

[Afanasyev] I must say that the banking market is the most regulated and controlled one today. There are very many supervisory organs over the banks: the tax inspectorate and the Central Bank and the Control-Audit Commission and the Ministry of Finance, and the auditing services, and the tax police. Not to mention the toughness of the control mechanism itself. So there is practically no room for abuses. As for the guidelines for the personnel policy, emphasis is placed on people who already have experience working in financial institutions in management positions and do not have a bad reputation. As in all young structures, first the bank collective gathered recommendations. We are now beginning to send out announcements of the need for specialists with particular qualifications since we are able to provide them with a decent standard of living, which corresponds to their professionalism; we are organizing competitions for vacant positions.

Women Work Just as Well as Men

[DELOVOY MIR] But still, if you had to choose between a man and a woman, all other things being equal, which would you prefer to trust with a management position? Some banks cultivate the principle: "in management only men and no women."

[Afanasyev] We are not misogynists, but, frankly, I can tell you quite definitely that we always have more problems with a collective of women. There are things that can be explained more simply to a man. But a purely male, so to speak, army collective is not the best either.

Objectively there are areas of banking activity that women historically handle better and more easily. For example, operational work is performed better by a woman because she is more precise and attentive and less inclined to make certain compromises with the client, and she values her job more since it is easier for her husband to find work. In our bank we have women who work just as well as men.

Then, if it is necessary to reach an agreement with someone, the bank sends the person who can do this best. Therefore, we do not have a strict criterion when selecting personnel: male or female. Within the framework of the subdivision, it is not expedient to create purely male or purely female collectives. If we were to make a purely male collective relatively isolated, after a certain amount of time the general culture would begin to deteriorate. The presence of even one woman is enough to keep a male collective in shape. But still there are more men in management positions.

[DELOVOY MIR] Judging from the figures of the consolidated balance sheet, during the third quarter of this year alone, the bank's profit increased almost fourfold. Pervyy russkiy bank is able to earn money, but how is this money spent?

[Afanasyev] A large part of it goes for development and then for social support of the collective, the organization of conditions for life, work, and recreation, and, finally, for sponsorship and philanthropy. The bank wants to participate in the financial support of the many-century-old Russian culture. Here we do not prefer philanthropic funds or associations where the allotted funds are diluted. We give money directly. In particular, we give regular sponsorship assistance to the Russian National Orchestra under the management of Mikhail Pletnev. Funds of the Pervyy russkiy bank were used to restore the little-known religious painting "The Crucifixion," which was painted in 1905 by the great Russian artist V.M. Vasnetsov.

In addition to being a patron of art, Pervyy russkiy bank renders philanthropic aid on a regular basis to the Orthodox church in the village of Ivanisovo in Moscow Oblast, children's homes, special boarding schools, therapeutic institutions, organizations of veterans of the Great Patriotic War, and families of people who died during the October events in Moscow.

In spite of the complication of the general conditions for banking activity, I can say with confidence that the principles of our bank's philanthropic aid will not change in the future.

Address of Pervyy russkiy bank: 127434, Moscow, Dmitkrovskoye Highway, 2.

Telephones: 210-72-00, 210-80-00, 976-72-25.

Fax: 210-86-66.

Decree on Issues of Federal Commission for Securities

954E0357B Moscow ROSSIYSKAYA GAZETA in Russian 21 Dec 94 p 5

["Decree of the Russian Federation Government No. 1374, 13 December 1993, City of Moscow: Issues of the Federal Commission for Securities and the Stock Market of the Russian Federation Government"]

[FBIS Translated Text] In implementation of Edict of the Russian Federation President No. 2063, 4 November 1994, "On Measures for State Regulation of the Securities Market in the Russian Federation" (SOBRANIYE ZAKONODATELSTVA ROSSIYSKOY FEDERATSII, 1994, No. 28, 2972), the Russian Federation Government **decrees:**

1. To confirm the attached listing of personnel comprising the membership of the Federal Commission for Securities and the Stock Market of the Russian Federation Government (henceforth—the Federal Commission).

To establish the terms respecting wages, material and domestic provision, and medical care for the deputy chairman and secretary of the Federal Commission on the level of the first deputy of a federal ministry and deputy of a federal ministry, respectively.

2. To establish the upper personnel-strength limit for employees of the working apparatus and executive directorate of the Federal Commission at 117 individuals.

To render applicable to employees of the working apparatus and executive directorate of the Federal Commission those terms respecting wages, material and domestic provision, and medical care that have been established for employees of the Russian Federation Ministry of Economics by Russian Federation Government Decree No. 240, dated 28 March 1994, "On the Russian Federation Ministry of Economics" (SOBRANIYE AKTOV PREZIDENTA I PRAVITELSTVA ROSSIYSKOY FEDERATSII, 1994, No. 14, Art. 1057).

3. To retain, for employees of the Administration of the Russian Federation President and federal organs of executive authority who effect transition to permanent employment with the Federal Commission in a lower-paying job position, the same terms respecting wages, material and domestic provision, and medical care they enjoyed in their previous job position for the period up to 31 December 1995.

4. That the Russian Federation Ministry of Finance shall present to the Russian Federation Government within two weeks proposals on the amount of the annual wage fund for employees of the working apparatus and executive directorate, deputy chairman, and secretary of the

Federal Commission, taking into account that the financing of Federal Commission activity, including outlays for the upkeep of its working apparatus and executive directorate, is effected out of federal budget funds directed towards the maintenance of federal organs of executive authority, according to procedure and in amounts as stipulated for a federal ministry.

5. That the Russian Federation State Committee for Management of State Property examine and decide within two weeks the question of location of the Federal Commission.

6. That the Federal Agency for Governmental Liaison and Information of the Russian Federation President supply the Federal Commission, its working apparatus and executive directorate, with necessary communications facilities in accordance with established procedure.

[Signed] Chairman of the Russian Federation Government
V. CHERNOMYRDIN

NOTE: The personnel roster of the Federal Commission for Securities and the Stock Market is not published.

Decree on Small Enterprises' Participation in State Programs

954E0399B Moscow ROSSIYSKAYA GAZETA in Russian 29 Dec 94 p 4

["Decree No 1322 of Russian Federation Government of 1 December 1994 on Measures To Secure Participation by Small Nonstate Enterprises in State Programs and Orders for State Needs"]

[FBIS Translated Text] In order to establish the necessary conditions for broader participation by small nonstate enterprises in state programs and orders for state needs, the Government of the Russian Federation **hereby decrees that**:

1. Federal agencies of the executive branch of government and agencies of the executive branch of government of members of the Russian Federation will envisage the possibility of participation by small nonstate enterprises in government programs when they are drawing up these programs.

2. During competitive bidding for orders for the purchase and delivery of goods and the performance of work (or services) for state needs, the officials responsible for placing the state orders will do the following:

—establish the necessary conditions to secure participation by small nonstate enterprises in the competitive bidding;

—include a representative of the Fund for the Support of Business and the Development of Competition of the State Committee of the Russian Federation for Antimonopoly Policy and Support for New Economic Structures (by agreement) among the members of the commission reviewing the bids.

3. When the State Committee of the Russian Federation for Industrial Policy is developing the system of informational support for small business envisaged in the Federal Program for the State Support of Small Business in the Russian Federation in 1994-1995, approved by Decree No 409 of the Russian Federation Government of 29 April 1994 "On Measures for the State Support of Small Business in the Russian Federation in 1994-1995" (Collected Laws of the Russian Federation, 1994, No 3, Sec 213), the list of informational services will include information on the possibility of participation by small nonstate enterprises in state programs and orders for state needs and information on small nonstate enterprises, their areas of business, and the goods they produce and work (or services) they perform.

4. Small nonstate enterprises participating in state defense orders will be entitled to purchase items for general industrial use under the special quotas (state reserve notices) established by the Russian Federation Ministry of Economics for the mandatory sale of these items.

5. The Russian Federation Ministry of Foreign Economic Relations will consider the possibility of participation by small nonstate enterprises in competitive bidding for deliveries of goods and the performance of work (or services) for federal government needs.

6. Federal agencies of the executive branch of government and agencies of the executive branch of government of members of the Russian Federation will offer assistance to the following:

—to state purchasing agents in the encouragement of small nonstate enterprises to participate in competitive bidding for orders for the delivery of goods and the performance of work (or services) for state needs;

—to small nonstate enterprises in the establishment and maintenance of economic ties to secure the production and delivery of goods and the performance of work (or services) for state needs.

[Signed] V. Chernomyrdin, Chairman of the Russian Federation Government

Edict on Amendments, Additions to State Tax Service Statute

954E0357C Moscow ROSSIYSKAYA GAZETA in Russian 21 Dec 94 p 5

["Edict of the Russian Federation President: On the Introduction of Amendments and Additions to the Statute on the Russian Federation State Tax Service"]

[FBIS Translated Text] In connection with Edict of the Russian Federation President No. 1556, 8 December 1992, "On the Federal Treasury" (SOBRANIYE

AKTOV PREZIDENTA I PRAVITELSTVA ROSSIYSKOY FEDERATSII, 1992, No. 24, Art. 2101), **I decree:**

To insert the following amendments and additions to Point 18 of the Statute on the Russian Federation State Tax Service, confirmed by Edict of the Russian Federation President No. 340, 31 December 1991:

in subpoint e, add the words: "by treasury organs";

in subpoint n, replace the words "to financial organs" by the words "to treasury organs."

[Signed] President of the Russian Federation
B. YELTSIN
Moscow, the Kremlin
16 December 1994
No. 2180

Edict on Customs Payments to Federal Budget

954E0403A Moscow ROSSIYSKAYA GAZETA in Russian 27 Dec 94 p 4

[Edict on Measures for Realization of the Edict of the President of the Russian Federation of 29 August 1994, No. 1787 "On Customs Payments for Dutiable Goods to the Federal Budget"]

[FBIS Translated Text] For the purpose of regulating the receipt of customs payments for dutiable goods in the federal budget and to ensure control over specific-purpose utilization of funds formed as a result of benefits granted for the payment of customs, I decree as follows:

1. Adopt the proposal of the Ministry of Finance of the Russian Federation and the State Customs Committee of the Russian Federation regarding the fulfillment of contracts in 1994 that were concluded by the Russian Fund of Invalids of War in Afghanistan for the purpose of conducting charter activity, before 1 April 1994, with the continuation until 31 December 1994 of conditions stipulated by the edict of the president of the Russian Federation of 22 December 1993 No 2254 on measures of state support for activity of All-Russian public associations of invalids.

2. The Ministry of Finance of the Russian Federation and the State Customs Committee of the Russian Federation are to determine the list of contracts the fulfillment of which is stipulated in Point 1 of this edict.

3. The Russian Fund of Invalids of War in Afghanistan are to submit reports on specific-purpose utilization of funds derived from the realization of the given contracts within one month following the fulfillment of contracts indicated in Point 2 of this edict, to the Ministry of Finance of the Russian Federation and the State Tax Service of the Russian Federation.

[Signed] B. Yeltsin, president of the Russian Federation
Moscow, the Kremlin
17 December 1994
No. 2195

Futures Market Dynamics on Moscow Commodity Exchange in November 94

954E0439A Moscow BIZNES I BANKI in Russian No 52, Dec 94 p 1

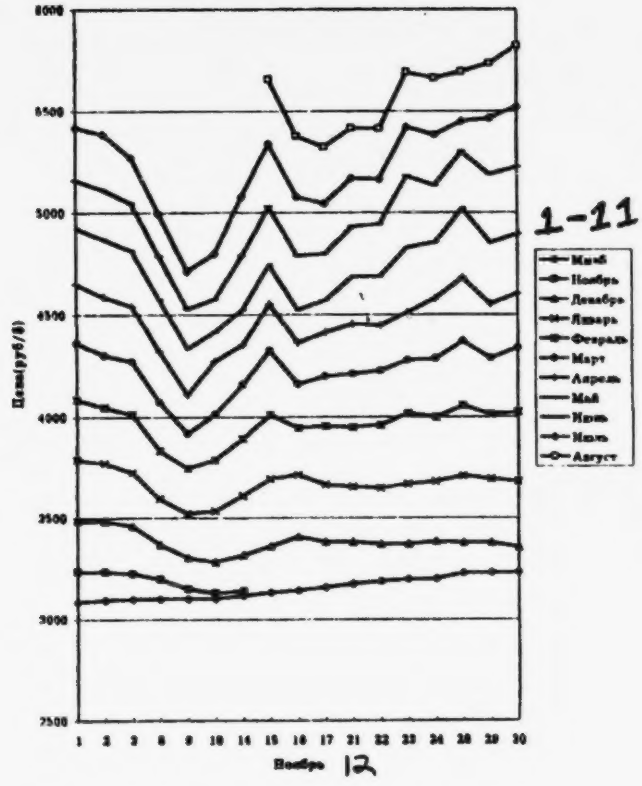
[Article by Ashot Arutyunyan, associate of the YuRANFIN accounting firm of the NTB, under the rubric "Survey": "The Futures Market: Will the October Situation Be Repeated?"]

[FBIS Translated Text] After the October upheavals, the first half of November was marked by relative calm on the financial market. Some stabilization was achieved as a result of the tougher bidding procedure at MMVB [Moscow Interbank Currency Exchange] and greater control over the exchange rate of the dollar on the currency market by the Central Bank of Russia. In the first half of November, the dollar rose by only 1.5 percent. No influx of ruble capital onto the interbank market was observed during the period; this is evidenced by the virtually unchanged rate of attraction of capital (according to data of the Orgbank MBO [expansion not given]). During these days, representatives of the International Monetary Fund announced that it was ready to allocate 16-17 billion dollars to Russia in 1995 on the condition that the ruble be rigidly "tied" to the dollar at the level of 3,500-3,700 rubles [R] to the dollar. Obviously, all this had an effect on price dynamics on the futures market of the Moscow Commodity Exchange. From 1 through 9 November, there was a sharp drop in the quotations of contracts for all the months of delivery (see diagram). This trend was the result of both the stagnation of the dollar exchange rate on the spot market and the absence from the market of major dealers, who for the most part determined the behavior of the entire market.

The first 10 days of November were also marked by the events related to the activities of the MTsFB [Moscow Central Futures Exchange]. The AO [joint stock company] Birzhevaya palata [Exchange Chamber], under whose aegis futures bidding was conducted at MTsFB (until the bidding was suspended on October 4), in late October and early November returned to creditors the pledges paid earlier by accounting firms. Only the variation margin (the gain of creditors' firms) was not returned, since the firms that lost out were unable to pay. That is to say, the situation involving the creditors of the AO Birzhevaya palata, among whom were very large banks (we wrote about that in one of the previous surveys), had improved substantially. Among other things, we wrote that one of the largest creditors was the KB [commercial bank] Kuzbassotsbank [Kuznets Basin Social Bank] and gave the extent of creditor indebtedness—R5 billion. But with a more detailed analysis of the situation, it became clear that the primary creditor indebtedness was R4 billion (according to the "Certificate of Mutual Settlement of Accounts Between the AO

Dynamics of Quotations of $1,000 Futures Contracts in November

Динамика котировок фьючерсных контрактов $1000 в ноябре



Key:

1. MMVB
2. November
3. December
4. January
5. February
6. March
7. April
8. May
9. June
10. July
11. August
12. November

Birzhevaya palata and the KB Kuzbassotsbank") and had been formed on the Depo account and fully repaid to the creditor bank. Only part of the profits in the form of the variation margin was not received—about R600 million. Thus, by placing a large part of its capital in reliable financial instruments, the KB Kuzbassotsbank minimized its losses even when the bidding at the AO Birzhevaya palata was suspended.

The second event was the resumption of bidding at the AO Birzhevaya palata. However, as was expected, after the crash on 4 October, the major clients left the exchange. The volumes of the bidding are small—about 200,000 dollars on each contract.

After 10 November, ruble capital again appeared on the interbank market; the sharp drop in the rates of attraction (the MBO Orgbank) is evidence of this. In part this capital was directed to the GKO [state short term bonds] Committee for Defense] auction, and in part—to the currency market, which resulted in another, though small, jump in the dollar. The dollar rose by 2.1 percent from 10 through 18 November. The futures market of the MTB [Moscow Commodity Exchange] reacted to the sharp jump (everyone remembered "Black Tuesday" very well): the price of a July contract rose by 11 percent from 10 through 15 November. But on the 16th the quotations had already begun to fall—brokers understood that a repeat of the October situation on the currency market was unlikely in November. A certain calm appeared on the financial market again from 18 through 24 November. The refinancing rate was raised from 170 to 180 percent starting on 17 November, which stabilized the situation somewhat. During this period, the rates of attraction of ruble capital were virtually unchanged and there was no influx of money onto the market. The dollar continued to rise slowly—by 1.1 percent from 18 through 24 November. The futures quotations behaved irregularly—in the early months they hardly rose at all, and in later months they rose much more vigorously because of the presence of speculators. This situation continued until the end of November with small changes.

If we try to predict the development of the situation in December, we can say that it appears that there will be no sharp jumps in the rate of the dollar at MMVB and on the interbank currency market. This is related to two most important factors—exporters' sale of hard currency earnings on the currency market in December, and in addition the need for banks to bring their own normative indicators into line with the requirements of the Ministry of Finance and the RF Central Bank on the eve of the issuance of the annual balance. This requires that banks sell part of their hard currency assets on the Russian market. To a great extent, the situation on the hard currency market in December will depend on whether the government allocates investments for certain sectors. True, judging from everything such investments are not forecast in December. Moreover, to all appearances an attempt will be made to resolve the acute problem of nonpayments between sectors not by direct investments, but with the help of the GKO, R36 trillion of whose rubles have been released. This step can be successful only if banks have an interest in buying this paper at a certain discount. Then much smaller volumes of investments at the state's expense will be required. They will be made with banks' help, which may lessen pressure on the hard currency market. However, it is unlikely that this mechanism will begin working in December. Moreover, banks today are somewhat doubtful about the GKO. Given the slow rise in the exchange rate of the dollar on the MMVB in December, the futures quotations with delivery dates in the coming months will obviously stagnate or rise insignificantly and the quotations of contracts with dates in later months will rise substantially in anticipation of the altogether likely January jump of the dollar on the MMVB.

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Cash Account Centers Blamed for Interregional Late Payments

954E0428A Moscow IZVESTIYA in Russian 20 Dec 94 p 35

[Article by Sergey Lekomtsev, economist with the Analytical Division of Rossiyskiy Kredit Bank: "More Than Half of All Payments Lost or Delayed by Cash Account Centers"]

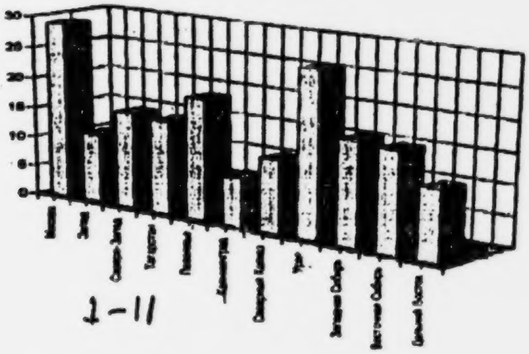
[FBIS Translated Text] The matter of payments between various regions of Russia is a very acute problem today. All participants in our country's financial marketplace have experienced the difficulties involved in payment of interregional accounts: the considerable amount of time it takes payments to arrive, the unreliability of the Central Bank's cash account centers, and the possibility that payments will be lost. Analysis of the time it takes for payments to move between various regions of Russia indicates the main reasons for delays: a poorly developed financial network in a number of regions, intentional actions by certain banks, poor quality of services on the part of a number of banks, and poor organization of cash account centers' account-servicing operations in a number of regions.

Inadequate development of the financial network in a number of regions is manifested in the chronic shortage of banks capable of servicing financial flows in a given oblast, republic or kray quickly and in a high-quality manner. It is common knowledge that a system of correspondent accounts is used to ensure quick accounting between various banks. These correspondent accounts are opened by banks at other banks, and the amount of payments that can be made depends on the size of residuals in the correspondent accounts. The more banks with which correspondent accounts have been established and the larger the amount of funds in those accounts, the faster a bank is able to make substantial interregional payments. Naturally only a few of the largest and most reliable banks can afford to maintain an extensive network of correspondent accounts and large amounts of money in those accounts. A majority of regional banks are risky structures with a low level of technology, and this has a very negative effect on their ability to maintain corresponding relations with the major Russian banks which service up to 70 percent of all enterprises.

Using an analysis of the time it takes for payments from various regions to reach Moscow, one can identify the oblasts which have a particularly difficult time with payments. This analysis indicates that there is a clear

Amount of Delayed Payments as a Percentage of Total Volume

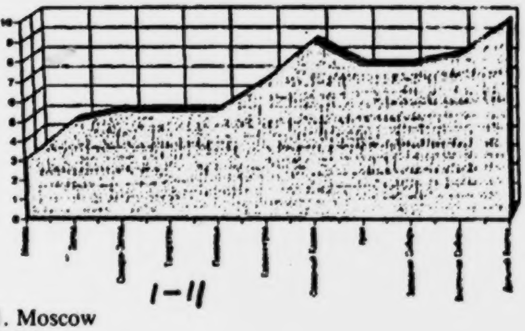
Объем просроченных платежей в процентах от общего оборота



1. Moscow
2. West
3. North-West
4. Tatarstan
5. Volga area
6. Kaliningrad
7. Northern Caucasus
8. Urals
9. Western Siberia
10. Eastern Siberia
11. Far East

Average Time Required To Process Payments (In Days), By Region

Среднее время прохождения платежей (сутки) в зависимости от региона



1. Moscow
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correlation between distance from the capital and the amount of time required for payments to arrive. For example, the average time required for payment processing in Moscow is three days, payments from the European regions arrive in five to seven days, and payments from the Russian Far East and Siberia take nine or 10 days. However, up to 30 percent of the total volume of payments are late. This applies to Moscow, the Urals and the Volga region.

In addition, a number of banks which handle payments in the regions in question were also singled out.

One important factor in this problem is intentional delay in the processing of transit payments. One reason for delays in transfers of funds is the amounts of the payments themselves. There is a direct correlation between the amount of a payment and the length of time required to process it. In this case the actual reason for the delay is the technical inadequacy of the interbank payment system in Russia. The larger the amount of money being transferred, the longer it takes to process the payment. For example, increasing the amount of a payment by a factor of seven creates a five-day delay.

Another reason for delays in interregional payments is poor service by cash account centers in a number of oblasts and regions. Making payments via the cash account center system results both in delays and in lost payments. This is confirmed by the available data, according to which 60 percent of delays and 57 percent of losses were attributable to cash account centers.

The non-payment problem is closely linked to the reliability and skills level of the banks through which payment information is relayed. Repeated statements by Central Bank experts regarding an impending wave of bankruptcies among small regional banks force one to consider seriously what are the possible consequences. The natural outgrowth of this process would be exacerbation of the non-payment problem. During the first half of 1994 the Central Bank revoked the licenses of 28 banks for violations of banking legislation, whereas the number of revocations in all of 1993 was only 19.

And so conscientious banking institutions and their customers are all suffering as a result of flaws in the banking system and payment delays within that system. This is an especially acute problem for state services which have branches throughout the country. Those regional offices have opened clearing accounts with many regional banks, which are to blame for delaying payments between regional divisions and their central agencies and thus creating confusion and the prospect of lost payments.

A solution to the payment problem is envisioned primarily in terms of further development of regional policy and development of a network of branches and subsidiary banks in the regions that have the worst record with regard to payment processing.

New Railway Sector Approaches to Economic Problems

Expanded Collegium Meets

954E0377A Moscow GUDOK in Russian 27 Dec 94 pp 1-2

[Article by L. Kizilova, GUDOK correspondent: "The Sector's Strategy: New Approaches. Notes from an Expanded Session of the MPS Collegium"]

[FBIS Translated Text] **"Our abominable work in interacting with customers...." "We do not recognize the customer...." "We must crush the callous system of working with customers—if we can say what it is...." "They are blocking the customers, and putting them in a difficult framework..." Pain and alarm was conveyed in these utterances of G. Fadeyev, minister of Railways, made in the course of the expanded session of the MPS Collegium. In these phrases, perhaps, is concentrated the essence of the keenest and most urgent problem of railroad transport: the need to change interrelations with the customers, to keep freight from departing on other forms of transport, to prevent the predicted 17-percent drop in transport volume (with a 10-12 percent drop in production volume).**

This is the problem that ranked among the strategic problems in the minister's report. Hence the main task—the need to establish and develop a marketing system; radical structural reorganization, with the development of a system of centers for named train transport service, encompassing all the units of the sector—from station to ministry.

Among the problems of interaction with customers is that of improving the normative base in consideration of market demands.

In a word, the customer should not remain on the edge of railroad transport. The sector can take deserved pride in the fact that it is working stably and is fulfilling the plan for shipment of the freight presented. This alone is not enough to maintain stability, however: competition dictates new demands.

Last December's collegium, of course, also talked about these demands. If we turn to its decree, we can see that some very good ideas were proclaimed: set up a marketing structure, introduce flexible tariffs, develop advertising.... If all those decisions had been carried out it is possible that many questions would not have to have been posed anew at the present collegium. Who bears the responsibility for the nonfulfillment of last year's items? Unfortunately, this was not mentioned.

Already we hear the former slogan, but many times intensified. Instead of: "Face the customer"—"The customer should be king." If things go this way, the sector will flourish.

It is a pity only that in the speeches of the dozens of participants, only a small number supported the minister's call with respect to the "customer is king." After all, all the railroads are suffering from losses of freight. B. Lapidus, chief of the Economic Main Administration, formulated it precisely: "The possibilities of raising tariffs without reducing transport volume today have been virtually exhausted." I. Besedin, deputy minister, presented this figure: If the predicted efflux of freight to motor vehicles takes place, 1 trillion rubles [R] will be lost.

In general, with respect to the speeches of the two-day session, I should like to note the following. In October there was a meeting of the chief economists of the railroads; in November—a meeting of the Collegium, on fulfilling the General Agreement Among the Basic Sectors. The sector's staff therefore proposed that some of the routine questions be removed from the coming, final December session, freeing it for discussion of strategy problems. Many of the speakers, however, unfortunately did not understand this idea, and instead of proposals on strategic directions, "lugged" individual, routine problems onto the rostrum. These were, of course, mainly the practical workers—the road chiefs, who are worried by urgent economic concerns. But is it worth turning their speeches into a self-account of about ten minutes, listing the indicators that they have achieved through fulfilling the railroad plan for reducing operating expenses?

It would appear particularly timely (and perhaps, even somewhat late?) in this connection to hear the statement of the problem on the need for an analytical center made in the speech made by B. Lapidus. In Germany, for example, he said, there are 200 people working in a structure like this, even though the transport volume is only 20-30 percent of the Russian volume.

A great deal of work could certainly be found for an analytical center. In particular, the problem of investing in the sector today requires detailed study, because of the reduction in receipts from the budget. It is gratifying to note that new approaches on this plane appeared at the collegium. Many spoke of the need to attract the capital of commercial banks. O. Soskovets, first vice-premier, for example, is convinced that the bankers do not know enough about the structure of our economy and the potentials for investment in our sector in particular.

Potential sources of financing mentioned by other speakers require analysis. B. Lapidus, for example, mentioned the need to revise the legislation on the rights of the railroads to be in charge of their property—this may, he feels, become an additional reliable and efficient source of financing. A. Bogdanovich, deputy minister, spoke of non-traditional forms of obtaining income—not only from the railroads, but also from the infrastructure, as in the West—stores, hotels, etc.

The situation on the passenger transport market also needs detailed analysis. There was talk of the need to set up a system of tracing the demand for passenger transport. Also proposed was the conclusion of contracts between the railroads and the local administrations, taking into consideration the questions of compensating for losses from suburban transport. O. Sharadze, chief of the Gorkiy Railroad, reported on a new form of intrasectorial competition—organizing the named passenger trains of two railroads (the Moscow and the Gorkiy) with notification of the passengers and the possibility of choice.

New ideas about freight transport were also conveyed—for example, concluding contracts for future transport (futures). Activity is being stirred up on the railroad stock market. For example, O. Sharadze reported that the Gorkiy had managed to foster respect for the road's promissory note, and by 11 January, R170 billion will be paid by promissory notes.

The fulfillment and development of the General Agreement on Limiting Prices and Tariffs is a great contribution of the basic sectors, including the MPS. The chemical, machine-building and other sectors have joined it. It is enough to present this fact: through applying the agreement, since September 1994, prices for goods consumed by the sector are 30-40 percent lower than on the whole for industry. This example shows that if work is done in an objective-oriented manner, it will produce results, and both the customer and the transporter are interested in it.

Things are not quite the same with respect to differentiated tariffs. This fact conveys what has been achieved: 10 percent of transport is carried out in accordance with flexible tariffs. This, of course, is good. This point of the collegium decree, however, seems to lag considerably behind the times: "Prepare proposals, in the course of the first half of 1995, on revising the system of formulating tariffs for railroad transport on the basis of market factors." These same "market factors" have been putting us in a helpless situation for a long time now, and we will still be "preparing proposals" for another six months. Or this point: "Continue work, in 1995-1997, on developing a system of technological and economic norms for the transition to territorially differentiated tariffs, bearing in mind its possible introduction at the stage of stabilizing the Russian Federation economy." Will stabilization come only if they introduce territorially differentiated tariffs in two years? Will Russia's economic wholeness not be broken down by the excessive expenditures for transport for regions of Siberia, the Far East and the Maritime areas? It is already becoming more advantageous for them to transport freight from Japan, Korea and China, not from the European part of Russia.

The point of the decree on "the railroads' strict adherence to anti-monopoly legislation" looks strange. Alas, it must be adhered to only because it is—legislation! Does this really not go without saying?

Improvement of the normative base, in the words of B. Lapidus, is proceeding with difficulty. So far, as we know, the Law on Federal Railroad Transport and the Regulations of the Railroads have not been passed. There are many problems in taxation. In particular, A. Zaytsev, chief of the October Railroad, noted that, in paying the tax for the road fund, the railroad workers are investing in their competitors—the motor vehicle drivers. A. Martynchuk, chief of the Finances Administration, V. Atlasov, chief of the Southeastern Railroad, and others spoke in particular of the need to reduce the legal components in the road structure and accordingly, reduce the payments to the budget.

The minister of Railways named the problem of utilization of the freight car fleet and clearing operations for it as one of the most important. A. Kondratenko, deputy minister, cited examples of the CIS republics "updating" their fleet by means of Russia's cars, by simply changing the number on them and returning broken-down cars to us instead of the new ones. The time has come, he said, to revise the financial model for use of railcars by the CIS countries. The problem should be solved in consideration of Russian interests. A. Koryachkin, chief of the Kemerovo Railroad, proposed introducing economic responsibility for turning over railcars at junction points.

A new approach for the purchase of freight cars was also defined. "The magnates should have their own rolling stock," said the minister. It also suits customers, as follows from the results of the meeting in Donetsk, if they purchase cars and obtain tariff privileges.

In conclusion, we must touch on the social sphere. In the words of A. Bogdanovich, the sectorial Tariff Agreement has been fulfilled, "with the exception of the budgetary sphere." Its workers have not been paid wages in two or three months.

These figures obviously merit analysis. The wages on the whole for the sector were (according to the data of the MPS Statistics Administration) R361,000 in October 1994. At the same time, in the basic activity they were R397,000, in national education—R176,000, and in public health—R181,000. The budgetary sphere lagged greatly—by R100,000!—behind even the average figure for industry (R283,000). It turns out that even physicians and teachers are paid more than the modest wage paid the budgetary sphere.

One more figure demands attention. In the anticipated results of work during 1994, it is reported: "The labor productivity of workers employed in transport will decrease by 22 percent as compared with last year, and by 0.6 percent as against the plan, and through the drop in the amount of work brought in—by 25 percent." The number of people will be reduced by 57,000 (in the case of those employed in the MPS system, 2.15 million people). Given the substantial reduction in transport volumes, the numbers are negligibly reduced, which also gives a noticeable drop in the labor productivity indicator. No one is calling for mass dismissal, but the correspondence between the figures for employment and the work volume should be traced. This should probably be one of the elements of the "anti-expense" method of economic operation.

It remains, in conclusion, to express regret that the collegium meeting did not specifically record the fulfillment of last year's decree. Then, perhaps, a number of points of the present decree might have been conveyed in a slightly different form. At the same time, I wish to note a considerable step forward. As an example, let us mention that information on the experience of foreign countries in working with the customer was added to the materials of the collegium. The very fact that this experience is being studied indicates the development of marketing. Perhaps, not far from today, our sector will be able to formulate its tasks on approximately the level characterized by the example of the activity of French railroads: "The increase in the speed of trains on the Paris-Southeast high-speed lines, with a reduction in the time of the trip from four to two hours, with unchanged tariffs, has led to a 48 percent reduction in trips by air transport, with their simultaneous increase on high-speed railway mainlines."

Participants' Comments

954E0377B Moscow GUDOK in Russian 27 Dec 94 p 2

[Interviews with participants in MPS December Collegium: "The Participants of the Expanded MPS Collegium Speak"]

[FBIS Translated Text]

F. Kotlyarenko, chief of the North Caucasus Railroad

[GUDOK] In your speech you mentioned the problems involved in selling your treasury bonds....

[Kotlyarenko] The thing is that the treasury bonds issued by the Moscow Industrial Bank were issued for the coal workers. We both settled accounts with these treasury bonds, and cleared off our debts (a sum of 35 billion [R]).

It was stipulated that we could settle with the budget with these securities. After obtaining them, however, we were to register them in the Moscow Industrial Bank, so that they were considered as payment for our federal taxes.

The treasury bonds are in force for a period of three months, and will expire on 7 February. The bank is dragging out the registration of the securities, and meanwhile the amount of penalty for delay in tax payment is growing.

Does all this really inspire trust in securities issued by the state? People have more faith in Leka Golubkov.... How can we assemble in 1995 to build a state investment policy with such a disrespectful attitude toward the owners of the securities....

[GUDOK] What do you think about the futures contracts in transport?

[Kotlyarenko] I have a positive attitude toward this, but the state should not stand aside: who will trust our securities if they do not pass treasury bonds?

[GUDOK] What should be the role of state control in the use of futures in transport?

[Kotlyarenko] Some sort of legislative act is needed to regulate the mechanism of selling these contracts.

[GUDOK] I cannot refrain from asking a question that is obviously worrying everyone: what is the situation on the railroad with respect to the armed conflict in Chechnya?

[Kotlyarenko] The situation is extremely difficult. The Groznyy Division has not been in operation since 5 September, and the Makhachkala Division has been cut off. We have not been able to pay wages to the Groznyy Division workers since June, and this is a very serious problem.

There is an exceptionally large flow of refugees—the Russian-speaking population from the Chechen area, including our railroad workers. We will have to deal with migration problems and find jobs for the people.

[GUDOK] Has the question of the losses suffered by the North Caucasus Railroad because of the military actions and of who will compensate for these losses been asked at government level?

[Kotlyarenko] Yes. This sum has been determined: over R100 billion. There is a government decree on clearing off the total losses amounting to a sum of over R1 trillion. Our losses must be reflected there, and should not be assigned to us.

[GUDOK] Do you hope that the state will return this money?

[Kotlyarenko] We must always rely on the state and not make a mistake ourselves.

O. Sharadze, chief of the Gorkiy Railroad

[GUDOK] You were recently elected to the oblast organs of authority. What legislative initiatives, related to transport work, will you put forward, since you are in this position?

[Sharadze] I will certainly lobby for all the railroad interests. This must be, since for local organs we are "nobody's," we are "federal." You know how they deal with money in the federal budget. Standing up for the position of the railroad workers is therefore my number-one task.

[GUDOK] But specifically—in what direction?

[Sharadze] In particular, in switching the funds that have been collected as tax over to the extra-budgetary road fund, to construct railroad transport facilities. I will put the question this way: the taxes which the railroad workers pay into this fund should be earmarked for solving safety problems—the construction of overbridges.

[GUDOK] Your railroad has always been receptive to new trends in the economy. Quite a lot was said at the collegium meeting about the new shape that is arising on the stock market—futures in transport. What is your attitude toward this?

[Sharadze] We have already concluded over 100 such contracts. The average period is two months. The sum on the average per client is about R4 billion. Today we are obtaining R43 billion a month in pre-payments.

[GUDOK] This constitutes approximately what percentage of the total sum of payments for transport?

[Sharadze] It is virtually a pre-payment of 15 days for all transport.

[GUDOK] Some of the speakers talked about this problem: the impossibility of selling treasury bonds....

[Sharadze] This problem does not exist for me. We have already sold R20 billion worth of them, and it could be more.

[GUDOK] That is, you feel that the matter lies not in the system itself, but in the interrelations with the banks?

[Sharadze] Yes. And we are building these relations successfully.

[GUDOK] What can you say about the structural reorganization on the railroad?

[Sharadze] We have closed the clearing accounts and eliminated all the legal persons, apart from the railroads and six divisions.

[GUDOK] But will this not lead to egalitarianism—after all, all the subdivisions have different functions, and a different number of workers? Having deprived them of the status of a legal person, you have in fact leveled them all in the economic respect....

[Sharadze] No. We are depriving them of a special status for each station and each enterprise: what can be done and how, that is, we are approaching the determination of their rights and functions in a differentiated way. We are not essentially reducing the rights of the enterprises, we have rid them of double taxation.

[GUDOK] Estimated approximately, what has this yielded?

[Sharadze] In the order of R80 billion.

V. Pryadko, president of the Transport Bank Association

[GUDOK] A great deal was said at the collegium meeting about the problem of investments in railroad transport. How will the Association participate in solving this problem? Is there any real possibility of this?

[Pryadko] There is. In order for the banks to participate in extending credit for the sector's investment programs, it is necessary to have the credit resources of the banks. Each of them individually is not in a position to cope with the investment program or any part of it. There are good words in the minister's report: the banks are strong when they are together. Our main task, therefore, is to consolidate the banks' assets to extend credit for the investment programs.

Where can we get the money? Funds amounting to R64 billion are moving in our banking system today. Their movement must be accelerated. This money should get to the transport banks more quickly. This norm exists: 1 to 20—that is, each ruble is multiplied by 20 and is converted into credit resources. This means that if you reduce the sum of the resources in transit by even 50 percent, you can acquire about R700 billion worth of credit resources. This is the potential of the transport banks, and we should realize it.

A. Khoruzhiy, general director of the Metallurgtransmash Consortium

[GUDOK] How do you evaluate the results of the collegium meeting from the standpoint of the customer?

[Khoruzhiy] The sector is ending the year successfully, and has clearly formulated goals and the basic means of achieving these goals. One feels that the railroads have a respected sectorial staff and have a respected and well-recognized leader of the country's railroad workers—the minister.

One of the main goals of the collegium is to select a reference point for the customer, the freight-owner, for a complete resolution of his concerns and his questions and satisfaction of his interests. The minister and most of the railroad chiefs convincingly designated the problems that must be solved jointly, using specific examples.

I should like to add to the outlined arsenal of devices and proposals set forth in the draft of the decree.

The tariff pressure must be removed for the metallurgists to work normally and for support of the transport volumes. This must be achieved both by reducing taxes on transport and by cutting expenditures on the railroads. The tariff policy must be intelligently shaped for widescale drawing in of rolling stock—the property of the freight owners. Conditions must be created in which, without coercion, the clientele would order rolling stock from the machine-builders, and, through discounts on the tariff, on a licensing basis, would return the money in stages over an agreed period of time. It may be no less advantageous to circulate the railcars on the network as well—the property of the freight-owners, but, in accordance with preferential tariffs, advantageous for both parties. Routine repair of the railcar fleet, using the forces of the enterprises, may be formulated in similar fashion.

The formation of market relations has long been in disagreement with the basic normative documents: the Regulations of the Railroads, the Rules for Transport, etc. They have become an anachronism, and for the bureaucratic part of the system and the simple line executors—a shield, on which all new forms of cooperation smash themselves up. It is very unfortunate, and the new texts of these documents, which are being prepared for approval, bear no points or norms which reflect the interests of the freight-owners and establish equal-right relationships with the railroads.

It appears that the Association of Users of Transport Services, which has just been set up in Russia, and the Commission on Tariffs, which was created by decision of the government, just as the Supervisory Council of the VTK, created within the framework of the MPS, are a good start! The whole problem apparently lies in jointly learning to cooperate with these structures and respect the opinion of the partners. The fear of confrontation is unjustified. The freight-owners are interested in efficient development of the country's transport system.

National Affairs

Performance of Crimean Politicians Judged

954F0794A Moscow NOVAYA YEZHEDNEVNAYA GAZETA in Russian 24 Dec 94 p 2

[Article by Vladimir Andronaki, under the "Crimea" heading: "When the Politicians Have a Hangover, the People Get a Splitting Headache"]

[FBIS Translated Text] **We know that the way to bury an idea is not to fight it but to take it to the point of absurdity. Entrust its embodiment to the radicals. In the nine months of a monumental advance toward the bright dream of rapprochement with Russia (but ideally to seceding from Ukraine), the Crimean authorities have wholly confirmed the inapplicability of this axiom.**

Given the desire, pros might convert the conventional energy of this year's political events on the peninsula into physical volumes. I am certain they would make comparisons with the unspecified quantity of the Chernobyl explosions. Let us recall the triumph of the coming to power of the Russia Bloc (a republican-plus-popular party) in the form of President Yu. Meshkov, majorities in the parliament of autonomy, and its own government in February-March. Then came the demonstrative return of the Constitution as of 6 May 1992, in essence declaring confederative relations with Ukraine. Then, in June, the formation of structures of power independent of Kiev and the unfolding of a mass campaign of insubordination to "Nenka," all to the jingoistic slogan "The Fatherland Is in danger!"

Alarming symptoms flew past the Crimeans, who were bewitched by the promises of grandiose prospects, nearly unnoticed, hinting at the danger of the republicans' political course, their impracticable ideology, ambitiousness, and extreme aggressiveness. These characteristics, sharply mixed up with their elementary ignorance of the logic of political laws and an inadequate assessment of the situation, created a hellish, combustible situation not only around the Crimean problem, but also inside the Russia Bloc.

In the first place, early in the work of the new parliament, deputies from the bloc quarreled badly over the division of posts and offices, as a result of which they split into two factions (today the former "Russia" comprises up to five factions).

Secondly, the promised economic easing was not observed. On the contrary, the beginning of the resort season, which coincided with a conflict between Simferopol and Kiev, was ruined. Neither Russians nor Ukrainians wished to risk their health in the dangerous region. The budget fell short by tens of billions of karbovantsy, the sanitariums went empty, and potential investors avoided the peninsula.

Thirdly, the World Democratic Community, which, according to the assurances of the party and the authorities, was not supposed to insult the people of the sovereign Republic of Crimea, was not in any rush to defend it. It even unambiguously condemned separatism and welcomed the integrity of Ukraine. Mother Russia, while generally warning Kiev against the use of force, declared its lack of territorial claims.

Finding itself at an impasse and in isolation, the parliament set about convulsively looking for guilty parties. The team of Ye. Saburov could not have suited the role better. Its government, in the first place, did not support the deputies' ideological disarray and instability; secondly, it did not pass out ministerial portfolios to "its own"; thirdly, it impartially criticized the "sacred cows" of the RBK [no expansion provided]. As a result, the September crisis of power broke out, routing people of like mind on both sides of the barricades.

As we know, everyone lost in this war. Ye. Saburov was defamed and driven out, and Yu. Meshkov had many of his powers taken away and lost any influence over the course of events. The Upper Rada, seizing the moment, rescinded about 40 legislative acts of the Crimean Supreme Soviet and, figuratively speaking, muzzled the parliament.

The bitterest loss for the republicans, though, was the loss of the people's trust. According to data from the Krymsotsis social service, 62.84 percent of those surveyed felt the actions of the Supreme Soviet and the government were so tangled that they could not understand what was going on; 54.98 percent did not feel that the powers that be were concerned about common people, and the ratings of the parliament and president fell to a pitiful level.

The trip to Moscow by a Supreme Soviet delegation about a month ago only confirmed the disenchantment there with Crimean politics. Still, today the deputy corps is attempting to try on the toga of global messianism, asserting that the republic will become the "bridge of friendship between Ukraine and Russia." After what has happened, though, this political romanticism evokes irony and bitterness in both capitals.

If we are to judge by the statements of L. Kuchma and B. Yeltsin, the "Crimean problem" no longer exists for them. There remains only the problem of the Black Sea fleet and to some extent that of Sevastopol as a military base. Right now, those are the only things slowing down the visit of Russia's president to Kiev and the signing of a large-scale intergovernmental agreement. Attempts of the autonomy to crowd into the negotiations process with the rights of a full-fledged participant is not even being discussed at the top.

And then there is the main thing: The absolute economic insolvency and poverty of the parliament, which is constantly begging for money from Kiev (and no one else) on any grounds, pacifies even inveterate radicals better than any threats or admonitions.

But what about the Russian idea? It is more alive than dead in the hearts of Crimeans. However, it has been transformed from an urgent task into a distant and impossible dream.

Deputies React to Kuchma's 'Small Constitution'

954K0437A Kiev DEMOKRATYCHNA UKRAYINA in Ukrainian 17 Dec 94 pp 1-2

[Comments by three deputies to the Supreme Council of Ukraine reported by Lyudmyla Blyshchyk; place and date not given: "If You Ask for the Impossible, Will You Get What You Want?"]

[FBIS Translated Text] **The so-called "Small Constitution" proposed by the president provoked a considerable stir within the corps of deputies, which, judging by all signs, has already split into two wings: a pro-presidential wing and a wing prepared to support the power of the councils. Following are the views of some deputies.**

Formula of Power

Leonid Kravchuk, former president:

Before expressing an opinion on the draft law proposed by the president, I would like to note a few conceptual elements. Clearly, the draft law can be viewed in isolation, or in the context of the time when it was submitted, or in the context of the alignment of political forces. These are the three approaches.

There are no limits to perfecting government even in societies in which democracy has been fostered for hundreds of years. In our case, it is a matter of fundamentally restructuring the system of government. Such restructuring could take place, and there would be nothing unusual about it, but only if it were done prior to elections. I am firmly convinced of this.

You cannot do this following legitimate elections (I do not wish to talk about whether or not I like the newly elected councils). Local government bodies have been elected, as have the Supreme Council and the president, and they have certain powers that are defined in the constitution and in laws. Now the question is being raised of fundamentally changing powers among the branches of government [as published] and abolishing certain elements in the system of councils. For example, the oblast and rayon councils are being eliminated or abolished. Does this mean that more than 10,000 deputies, who were elected by the people, will now lose their powers? Tell me, does this show respect for the voters and for those whom they elected?

A second aspect. We will have two constitutions—the "Small Constitution" (the so-called constitutional law on power) and the existing Constitution of Ukraine. This opens up a wide arena for maneuvering to those who want to circumvent the law. Because some will be guided by the "Small Constitution," others by the "Large Constitution," and others still, by laws. Thus the "Small Constitution" does not solve the problem. In my opinion, work on the Fundamental Law needs to be speeded up; it needs to be debated and adopted. If the Supreme Council does not pass it, it should be submitted to a referendum. This way we will have a constitution and solve the problem of governance.

Third. If what has happened is that we elected a government and are now beginning to change the laws, we need to find some sort of transitional articles of laws, as is the custom in civilized societies. ...For example, the Supreme Council twice fails to approve the program of the Cabinet of Ministers... Under the president's draft law, the president dissolves the Supreme Council. Where else in the world is parliament dissolved because it does not approve the government's program?!

I am in favor of conceptually reaching a consensus regarding what we can do today—in favor of finding a golden mean that would ensure the executive branch a sufficiently well-defined and restricted hierarchy and the president a base of support and governing powers. But the president should not abolish representative bodies and sharply limit the powers of the Supreme Council, which has already been elected.

Mykhaylo Syrota, deputy chairman of the Center faction:

I am convinced, and this is the view held by the Center group of deputies, that we need to examine the constitutional draft law "On State Power and Local Self-Government in Ukraine" proposed by the president first. Inasmuch as it is broader in scope. We need to take a stand on the basic principles, debate them, adopt the law, and then, if necessary, return to the draft law "On the Local Councils of People's Deputies," which is now dependent on the president's draft bill. This will enable us to create a legal basis for separating the powers of the different branches of government—from the center all the way to the local level.

But I doubt that parliament in its present makeup will be able to pass the constitutional bill. Because this will require 301 votes. It is therefore necessary to persistently look for and work out compromises. These compromises need to be sought in the area of counterbalances between the different branches of government. I believe that neither the executive branch nor the legislative branch should have an advantage. The draft bill proposed by the president does not contain a system of checks and balances. This needs to be worked out. I think that the presidential structures, which gave birth to this law, also understand this. Obviously, the guiding principle during the drafting of this proposal was what Napoleon expressed as: Ask for the impossible and you will get what you need!

Mykhaylo Pavlovskyy, Statehood faction:

No law and no idea is ideal. The present opposition in parliament centers on the negative aspects of the draft bills under discussion. I would take a different approach.

We need to look at the positive features and continue talking and developing these positive features. What they are doing now is counterposing the president's draft to parliament's, and this is not right.

In the president's draft, I would note as a positive feature the concept of an executive hierarchy and the separation of functions at the highest level of government. Perhaps not all the principles are appropriately formulated, but the idea itself is valid. And one of the positive features of the draft law "On the Councils of People's Deputies" is that it clearly defines the functions of self-government. As regards the middle rung of government, which is concentrated at the rayon and oblast level, we need to find a balance between the powers that the representative and the executive bodies want—in other words, balance them.

It is my belief that before considering the two draft laws, parliament should hear the reasoning of both sides and create a working group made up of representatives of both executive and representative branches that would reduce both bills to a common denominator. After all, we do not need power for the sake of power, but for the sake of overcoming the crisis that exists in Ukraine.

Luhansk Leadership Thwarts Reform

954K0443A Lvov POST-POSTUP in Ukrainian No 46, 23-29 Dec 94 p 6

[Article by Maryana Chorna, Luhansk-Lviv: "The Land of the Red Rising Sun"]

[FBIS Translated Text] **The sun that rises above Luhansk Oblast casts a red hue over Ukraine from this eastern rim of the country. The spots on the sun that rises over Ukraine only became visible in July of this year. However, the Luhansk master of Ukraine's eastern gateway has devised new rules, following the introduction of which these sun spots are now bleeding. And once again, the sun is rising red over Ukraine.**

The Luhansk land is settled by two dissimilar tribes—the "Sarmatians" and the "Polovtsians." The "Sarmatians" compactly inhabit nine large cities, work in industrial enterprises, and have a secondary or higher education. They die of diseases of "developed socialism" at an average age of 57. They speak "Sarmatian"—a mixture that somewhat resembles Russian. The "Polovtsians" have chosen to live in villages. They live somewhat longer than the "Sarmatians." The majority of rural dwellers are of pension or prepension age. They eat what grows under their feet in collective farms. They know how to read a bit and some know how to write. The language of communication of the "Polovtsians" is a mixture that somewhat resembles Ukrainian.

Elections in Luhansk Oblast have always been dominated by the "Polovtsian" component of the body politic. Thus when the local population elected apostates as mayors of three "Sarmatian" cities—Luhansk, Siverskodonetsk, and Alchevsk—the red land shook with outrage. But it did not collapse. The Prince of Luhansk, the chairman of the oblast council—that is, Kupin, the first secretary of the oblast CPU committee, came up with a way of punishing the disobedient "Sarmatians" and of winning the favor at their expense of the loyal to the Communist ideals "Polovtsians." He exacted a tribute on the renegades the likes of which had not been seen even under the Muscovite occupation.

Over the 75 years of Soviet power in the Donbas, the nine industrial centers of Luhansk Oblast traditionally "paid their debts to the village." The Luhansk peripheries are used to this, and according to the patriarchal custom, the collective farm chairmen doze peacefully under their portraits of Illich, while the farms in their charge milk 400 grams of milk per cow and do not even manage to feed themselves. Despite this, the "speckled collective farm hen" feels no need to strain herself and lay so much as one egg. In 1994, Troitske Rayon of Luhansk Oblast contributed 0.5 billion karbovantsi to the budget and spent 21 billion; Bilovodsk Rayon put in two billion karbovantsi and squandered 22 billion. The difference was covered by the "Sarmatians." Primarily, Luhansk, Lysychansk, Siverskodonetsk, Alchevsk. A bit by the miners from Stakhanov to Krasnodon. In 1994 alone, the "Sarmatians" paid tribute to the oblast prince in the amounts of 623.7 billion, 428.3 billion, 128 billion, and 101 billion karbovantsi, respectively. The subsidies and preferential credits were quite sufficient for "cottages" for the agroindustrial bosses, while the docile "Polovtsian" grandmothers grew their food in their own gardens.

In the cities, they earned their living at the cost of their lives. One million metric tons of Luhansk coal cost five miners' widows, and no one even bothered to count the number of cripples. In Siverskodonetsk, where they mine carbamide, 2.1 times as many people suffer from hypertrophy than the national average; the incidence of stomach ailments is 2.3 times as high, 82% more people than the Ukrainian average blood disorders, and 77% more suffer from respiratory diseases. One could multiply this insane list endlessly, because there is also the Lysychansk oil refinery, there is soda in Rubizhne, there is aniline, there is coking chemistry in Alchevsk, which can be smelled 20 kilometers away. At the same time, the budget appropriations for medical care in Siverskodonetsk were 10% lower than the oblast average. Others had even less. The blood-soaked money earned with broken backs disappeared into a black hole. The Soviet authorities performed their "regular tasks": its ideological task—"break everything up and divide the shards equally" and its practical task—conducting genocide with respect to the insubordinate urban proletariat and simultaneously reducing the collective farms to the complete stupor of a dependent.

The victory of the "fat cats"—as chairman Kupin of the oblast council likes to call them—in three of the nine donor-cities to the Luhansk economy placed the leading contingent of Ukraine's Leninists in a very difficult position. Neither Mayor Danylov of Luhansk, nor Mayor Hrytsyshyn of Siverskodonetsk, nor their colleague in Alchevsk is interested in building communism in the oblast as a separate entity.

Compounding all the misfortunes that have befallen the Prince of Luhansk is the government's decree on the liberalization of prices. It took some thinking to come up with the notion that the Star of Communism Collective Farm or Grandma Katya should have the right to sell their goods at their own prices! And that the collective farm "speckled hen" should receive no subsidies and learn to lay her own eggs and sell them! What a catastrophe! The collective farms will go bankrupt because even a Rockefeller cannot afford their production costs, and the empire of the Luhansk Kharchoprom [Food Industry] will fall apart at the seams. And what tune will the village choir sing at the next election in these circumstances?

Not one to lose his head, Comrade Kupin, the first Communist of the oblast, responded to the government's Decree No. 733 on the liberalization of prices by issuing his own Decree No. 227 dated 3 November 1994 "On Price Formation in Conditions of Economic Reform," in which he set "single factory wholesale-retail prices" for bread, cooked sausage, milk, milk products, etc. Where he came up with these new "single and regulated prices" the Lord alone knows. Rumor has it that these were "average oblast" prices relative to the actual expenditures of collective farms. Comrade Kupin's "regulated" bread proved to be worth its weight in gold: the price of a white wheat loaf (not including the trade markup) rose to 16,800 karbovantsi. After they added a "regulated" retail markup of 39% and the cost of transport to this price, the astonished "Polovtsians" and "Sarmatians" found a product on their store shelves ranging in cost from 24,000 to 27,000 karbovantsi. The same method was used to "regulate" the price of cooked sausage, and the population was "provided for" at 155,000 karbovantsi per kilogram (not including the markup) and at 174,000-178,000 karbovantsi (with markup). Kupin's decree No. 227 anticipated another detail—subsidies to Kharchoprom "every month corresponding to actual expenditures... from the price regulation fund."

A month later, on 2 December 1994, with his decree "On Indexing the 1994 Budget," Comrade Kupin and his monolithic detachment of Communist deputies set about patching the hole in the budget they had created. Inasmuch as the Communist idea is founded on "the expropriation of the expropriators," they naturally went for the "fat-cat" democrats. Of the 150 billion karbovantsi that were earmarked for the budget of Luhansk, Mayor Danylov was obliged to give back... 140 billion. The tribute levied from insubordinate Siverskodonetsk totalled 60 billion karbovantsi, while the anticipated revenues into the city budget for the entire fourth quarter amounted to only 45 billion karbovantsi. Other "Sarmatians," invaded by the red racket, were also punished. "Where is this money going?" asked the mayors of the red prince. "To the village, my loves, to the village..." he answered.

The largest amounts went to those rayons which cast the highest number of votes for the Communists in the elections. The stunned mayors asked: "And what about us?" You don't count. Halt public transport, close your schools, maternity buildings, museums, libraries—Luhan [as published] is buidling "a glorious future." Clearly, the decision of the chairman of the oblast council violates Article 12 of the "Law on Local Self-Government" and Articles 11 and 14 of the "Law on the Budget." But who cares? The Bolsheviks are not guided by the law, but by revolutionary legal awareness! In any case, even if the procuracy should repel the bold assault of "Voroshilov's riflemen" today, tomorrow they will simply adopt a decision to increase the permanent deductions to benefit the oblast and get their own way anyway. The insubordinate "Sarmatians" will be punished, and the "bad" mayors will be buried by cities reduced to rags. This is exactly what the political objective is. Because who is to blame? The democrats—of course.

Some may view Comrade Kupin's "budget wars" as a local matter. But it is not. Today's politico-economic map of Ukraine, with the exception of Galicia perhaps, very much resembles that of Luhansk Oblast. There are industrial donor-cities that carry the budget on their backs. There are entire donor oblasts—Donetsk Oblast, for example. And there are the collective farm "recipients," as in the case of Chernihiv Oblast. It is not the peasants who are to blame, but the collective farms. But we have what we have. Each such village district sent the Supreme Council if not a Communist, then a Socialist or an Agrarian. The democrats who made it, did so only in the cities. And the roots of the majority of the oblast council chairmen—from pink to crimson—are nourished by collective farm fields, and each oblast has its own "docile Polovtsians" and "Sarmatian-extremists." Thus Comrade Kupin's ruse with respect to both the budget and the "liberalization of prices" will be imitated. And the first shoots of "mayoral" democracy that broke through in the East will be stifled under this red mantle. This will have accomplished the next logical task of Soviet power—to discredit the political opponent with his own means. Under these circumstances, at future elections, as Illich rightly stated, "no class will dare to rise up against the councils."

Moroz Days As Speaker Seen Numbered

95P50034A Lvov POST-POSTUP in Ukrainian 30 Dec 94-6 Jan 95 p 1

[Unattributed Article: "The Revenge of the Right"]

[FBIS Translated Text] On December 28 the Ukrainian Supreme Council approved the first reading of the draft law On State Power and Local Self-Government proposed by President Kuchma.

The voting on the draft law showed the final division of parliament into two blocs, but the sorting out of relations between them was postponed until the post-Christmas letdown. 220 deputies voted for the president's draft law. It is exactly that number of deputies which make up the six right-center deputy groups and factions, which do not conceptually diverge from the president's views on government power in Ukraine.

Toward the end of the year a right-center majority was slowing forming in the Supreme Council, which will be inclined to elect a new chairman and deputy chairman of the Supreme Council during the first plenary sessions of the new year. In May 1994 Oleksandr Moroz only needed 171 votes in order to gain control over the most important parliamentary microphone. Now there are at least 220 persons in the Supreme Council who are ready to correct that mistake. The only restraint is the most banal factor: The right-center factions could quarrel over candidates for the chief shepherd's post. POSTPOSTUP learned that in conversations concerning a replacement for Oleksandr Moroz, the following people were mentioned: P. Sheyko, V. Cherep and V. Yevtukhov. The shadow of Ivan Plyushch has again appeared in the cloakrooms of the Supreme Council, however it is doubtful that the right-center factions will reach a compromise regarding his candidacy.

It only seems certain that the sword hanging above Oleksandr Moroz will fall before a worthy successor is found for the Supreme Council chairman's post. It is paradoxical, but the collapse of council power in Ukraine depends on whether Oleksandr Moroz will fall in a timely manner. For it is quite realistic to believe that after the small victory over the speaker, the people's deputies consolidated around the presidential draft law, to their amazement, will find many of their colleagues who are now on the other side of the government power barricade, on their side.

Vinnytsya Mayor Backs Kuchma Proposals

954F0870A Kiev NEZAVISIMOST in Russian 6 Jan 95 p 4

[Interview with Mayor of Vinnytsya Dmitriy Dvorkis by Vasiliy Kizha; place and date not given; under the rubric "Topical Interview": "Vinnytsya Mayor Dmitriy Dvorkis: 'We Were the First To Support the President...' A Few Touches to a Portrait Against the Background of a Conflict"]

[FBIS Translated Text] *Calling card—Dmitriy Vladimirovich Dvorkis. Born 28 January 1945. Graduated from technical school in Vinnytsya and the Kiev Institute of Construction Engineers. Career ladder: from plumber to foreman, work superintendent, construction unit chief, construction administration chief, and general director of Promstroymaterialy association. Currently chairman of the Vinnytsya City Council of People's Deputies.*

Saying something good about Dvorkis today is tantamount to confessing to being part of a mafiosi structure. Local newspapers, radio, and television have long been persistently trying to present the mayor of Vinnytsya as the enemy.

At the root of this is the fact that Dvorkis—a native Vinnytsya resident who knows everyone and everything here—did not want to watch silently while the newly elected oblast council chairman, former kolkhoz chairman Nikolay Melnik, instituted a virtual personnel pogrom in the city. He was firing professionals and competent managers without any explanation. Dvorkis criticized this arbitrariness sharply and forcibly, and appealed to the president for help. In response Melnik, with the help of the old party nomenklatura, kicked the old propaganda machine into full gear. Without blinking an eye he accused Dvorkis of aiding and abetting the mafia and even of an international Zionist plot.

So now the oblast council consists of communist-socialist nomenklatura throughout, and the gorispolkom [city executive committee] is a cohesive team of professionals. The "front" line after the personnel purge was drawn along the line of authority. Unlike Melnik and his "red" council, which unquestioningly followed A. Moroz, the Vinnytsya Gorispolkom headed by Dvorkis was among the first to support the president's program and sent him a telegram to this effect.

A former member of the oblast party committee, who possessed what amounted to unlimited power, Nikolay Yevtikhiyevich Melnik always put revolutionary expedience above the law. One day, sharing his wisdom with oblast procurators, he confessed: Yes, he did sometimes act in his kolkhoz not according to the law but at his own discretion. For instance, he helped a female kolkhoz member get documents attesting to her 15-year labor record at the kolkhoz; then just as easily—"for inappropriate behavior"—this service record was annulled, and several years later, again by his own hand, restored... And he got away with it—in his domain, he was the king.

Unlike his opponent, Dmitriy Vladimirovich worked until recently in relatively low-profile jobs, in the eternally downtrodden sector—construction. He knew by heart the city sewer networks, the running water system, housing, industrial and other facilities—many of them he built himself.

In short, they are different in every respect. And the mechanism that brought them into positions of authority was diametrically different. The election campaign run with the money of a rich kolkhoz; taking advantage of gross miscalculations of the former head of the oblast administration, N. Didyk; and flirting with Rukh, which Melnik afterwards immediately denounced, enabled him to win the elections. Dvorkis, on the other hand, came into power without the support of big money. Neither did he have any Napoleonic plans. The aforementioned Didyk, who, at the helm of a complex, disintegrating city economy, and on top of that on the threshold of denationalization, very much needed a communicable specialist, an intelligent person, and pressured city council deputies to hire him.

After some time on the job, Dvorkis convinced even the skeptics that he was the right man for the job. And the second elections went quite smoothly for him. Despite the fact that in the election campaign his opponents were willing to stoop to any methods, including disgusting anti-Semitic tricks.

Interestingly, all Vinnytsya's Christian churches supported and continue to support him. First and foremost because the mayor was able to resolve an interconfessional conflict festering in the city. Each church received its own space. Moreover, it was Dvorkis, who even before his election to the current job put the first cornerstone in the foundation of the temple that became a Vinnytsya architectural landmark—the temple of Evangelical Baptists, of whom there are thousands in the city.

Dvorkis' aid to Russian Orthodox believers in the restoration of their church also is well known in the city. He also helped the Catholics. The only restoration he did not participate in was that of the synagogue.

"I am a Jew—what will people say," he told me.

...The Vinnytsya city budget is currently bursting at the seams. This is no longer a catastrophe—this is a complete collapse. The largest enterprises are barely alive, unable to pay off even a part of their debt to the city. And the city in turn is unable to provide properly for schools and hospitals, pay for electricity... But even with all that, compared to other oblast centers Vinnytsya looks better by several orders of magnitude. The streets are clean; there are no interruptions in water and heat supply due to the local authorities; transportation operates normally; and unemployment is not as outrageously high as in other places. All schoolchildren from first through 11th grade get free meals in school; four soup kitchens for the indigent have been opened. Neither have the disabled, orphans, and other needy been forgotten. Two new artificial lakes add beauty to the recreation zone. In the central park, a monument to Afghan war veterans was erected at the gorispolkom's initiative. And now Dvorkis, in all this poverty, is trying to find the money to build a monument to Vasiliy Stus.

I practically invited myself to his house. I really wanted to see the luxurious quarters that are the source of so many legends. A four-room apartment on the fifth floor, quite far from the center. And the language spoken there is pure Ukrainian. Because the mayor's wife and mother-in-law are Ukrainians from the Zhitomir area. Dvorkis' daughter lives here too. It turns out that the apartment does not belong to Dmitriy Vasilyevich at all. It is the home of Yevgeniya Sevostyanovna, his mother-in-law, widow of an officer who died in the line of duty during the war. Her son-in-law is a mere "foster relative," living with his in-laws' family all his married life. Even the small garage for which the oblast press was hounding him is the property of Ye.S. Yastremskaya. She received a permit for it in 1978—her being a war widow and quite ill—three vertebral fractures are no joke. And anyway, this ill-starred garage is used not so much to keep a car as to store potatoes and various home-canned goodies. No, the Dvorkis family is definitely not poor, but neither do they live like many former and present little tsars of Vinnytsya, who build themselves mansions that would put the Emirates to shame.

[Kizha] Dmitriy Vladimirovich, there are persistent rumors circulating in Vinnytsya that Dvorkis patronized a lot of "mean" businessmen—some currently being detained and some on the run...

[Dvorkis] You know, in the beginning it terribly upset me when I heard such rumors. All sorts of things being said about me. That I bought the Central Market for R100 million; that I have already settled my wife in the Canary Islands and, having robbed Vinnytsya blind, am about to take off myself. I guess somebody needs these rumors very much.

[Kizha] The rumor is that you are selling to friends the juiciest morsels of real estate for a song—including a Yuzhnyy Bug hotel complex...

[Dvorkis] I am already tired of repeating that nobody has sold anything to anybody on the cheap. If something was indeed sold into private hands, it was in keeping with legislative acts and decisions. As to the Yuzhnyy Bug, Prodius invested 6 billion karbovantsy in repairs of this decrepit hotel in 1992-1993. At the time, we were only hoping that somebody would lease it on such terms.

[Kizha] Did you not ask yourself where Prodius got this kind of money?

[Dvorkis] I do not care where someone gets money these days. That is his problem. I have never compromised my conscience and consider myself an honest and decent man. I do my business with clean hands, a warm heart, and a cool mind. Prodius and all others cannot offer any testimony against me, because there is nothing to say.

[Kizha] What is the root of the conflict between you and Melnik?

[Dvorkis] He bet on the wrong people. I understand that it is difficult for him, a former kolkhoz chairman, to manage an oblast. I think, though, that the conflict between us does not originate from Melnik himself but from people who surround him.

[Kizha] Do you defend yourself?

[Dvorkis] No. I am used to being on the offensive. I am not good in defense. Especially considering that there is nothing to defend myself from.

[Kizha] How do you feel about building a vertical chain of authority?

[Dvorkis] I have been waiting for it for a long time. There was a time when I persistently tried to convince Kravchuk that it is needed. In the current chaos this is the only solution. As to all sorts of pro-communist projects, everybody became sick and tired of them because they are not viable...

[Kizha] The presidential draft law on authority envisages restrictions on oblast councils or even abolishing them. Do you agree with this?

[Dvorkis] Yes! We have to liquidate all councils, at all levels! They are assemblies of people who do not bear responsibility for anything. I say this on the basis of my experience as a former general director, unit chief, and work superintendent. Decisions cannot be made and implemented by a crowd. It is wonderful that the president came up with this initiative. Tell me, who remembers now the names of deputies of the former Supreme Council who allegedly governed the country? Nobody. They have been completely forgotten, because they did not have responsibility for anything, so how can you hold them to account? The president, on the other hand, carries responsibility for everything.

[Kizha] How many people in Vinnytsya are on the waiting list for housing now?

[Dvorkis] A total of about 40,000. And the prospects for them are not cheerful. Construction is being cut back. While in the past the state allocated some money, now we do not get a single karbovanets. They gave us a little money to build housing for Chernobyl victims—a few apartments, plus a few "pennies" for officers transferred to reserves. We have 1,100 of them, but the money is enough to build a couple of dozen apartments. You can imagine the situation... We are currently building 15 cooperative apartment houses. But we cannot get preferential credits. People do not have the money to buy out these condos.

[Kizha] Dmitriy Vladimirovich, the oblast is teeming with bizarre rumors—that you, allegedly to the detriment of the entire Ukraine, attempted to solve the housing problem with the help of Israeli firms, and to build some huge medical center in Vinnytsya...

[Dvorkis] This was in the very beginning of my work as chairman. Parents with disabled children came to see me. There are 1,300 children in Vinnytsya who suffer from cerebral paralysis or skeletal-muscular system defects. The parents had only one request: Please help us buy wheelchairs. How can one refuse? Imagine, a mother carries in her arms a 12- or 13-year-old paralyzed child. So I made a promise to myself—to build a wheelchair-making plant in the city. I was about to fly to Italy for negotiations. It so happened that on the day I was to fly out a delegation from Israel came to see me. During the meeting an invitation from the mayor of Jerusalem was delivered to me. The guests were flattered to see a Jew in the post of mayor of Vinnytsya... In short, on 1 December 1992 I took unpaid leave and went to Israel with my wife for two weeks. I met with the mayor of Jerusalem, who asked me: "Why of all things do you want to build a wheelchair-making plant?" "We have a lot of disabled children," I replied. And then he said: "Well, if you build this plant, will there be fewer disabled children?" "No," I said, "but..." "So, all right, you build wheelchairs for these, and new ones will keep coming—maybe you should work in the direction of preventive health care, so that such children are not born...?" Then they showed me a hospital in Jerusalem—state-of-the-art medical technology. As we were leaving there were tears of bitterness in my eyes—when will we have something like this?... And you know, maybe it was a purely Jewish thing, counting on a Jew helping a Jew, but I told Mayor Ted Kolik that I want to have such a hospital in Vinnytsya. "Do you have the money?" he asked. "If I had the money, I would not have come here..." "So what do you want?" "I heard that you are called not just Ted Kolik but Ted the Collector (he collects contributions for the needs of the city from the entire world where rich Jews live), and I would like to become such a person in Vinnytsya." "You know," he said, "I look at you and I think you will succeed!"

Three days later a meeting was organized for me with some very rich people from Israel, America, and Turkey. And in March some Israeli businessmen came here, and we signed a contract to begin construction of a modern emergency hospital with a diagnostic center. This construction and the state-of-the-art equipment were a gift to our city, nonrepayable.

We have allocated the space—several hectares on the territory of our psychiatric hospital. At the same time we agreed that in parallel the Israelis will build housing in Vinnytsya—several thousand apartments that are so much needed. Their cost is $12,000-15,000, and even that is on credit, with a 10-year payoff period. It appeared everything was decided, but then Deputy A. Makhlay spoke up in the oblast council: We do not need any of this, he said, this is harmful to us, a Zionist trick, and so on. Nevertheless, this absurdity found supporters. And a paper against me went to the procuracy. Another hassle began. The procuracy filed suit with the arbitration court. In short, we are involved in this stupid tedious stuff.

[Kizha] Dmitriy Vasilyevich, what can get the city out of the crisis fast?

[Dvorkis] Small and medium-size business, just like everything else. It will take quite a while to get large plants going. The light bulb and machine tool plants, as well as the Terminal are not going to operate at full capacity today. It will take time to bring them up.

[Kizha] How is privatization proceeding in Vinnytsya?

[Dvorkis] Terrible. We should have specified in the very beginning that everything is sold on a bid basis, regardless of whether the buyer is foreign or ours. Nothing is being taken out of here. For us, on the other hand, it is important to sell for as much as possible and get money into the budget. But our legislative base creates obstacles. It says that the collective has the right of first option. And we have already been burned on this in a major way several times, because you know what kind of owner a collective makes.

[Kizha] The oblast council made a decision that privatization in the oblast will be mainly conducted on a voucher basis...

[Dvorkis] This will do no good to the state's economy. Why are we afraid of foreign investors? Why are we afraid of rich people in general? I absolutely fail to understand this. At my initiative, a mayoral nonbudget fund has been set up in the city council. Thanks to this Vinnytsya today has five brand new trolley buses, and museums, libraries, the disabled hospital, the artists union, and the housing-municipal service received financial assistance... And for all this we are hit with a squall of suspicion; we were severely criticized in the oblast council. Then we lived through numerous audits of the fund...

[Kizha] The whole oblast now knows from anti-Semitic flyers that you grew up in the Vinnytsya bazaar.

[Dvorkis] This is true. I spent my childhood there because I am from a very poor family, completely and utterly poor. There were seven of us: myself, my mother, father, sister, grandfather and grandmother, and my father's brother. We all lived in one tiny room. Its door opened straight into the street. We cooked our food on a kerosene stove... Father worked as an electrician, and mother—a cashier in a construction organization. She walked to work quite a distance, all the way to Tyazhilov. I loved my grandfather very much. Like many of his ancestors, he was a blacksmith. A very intelligent, talented man. He was called Isaak Yuriyevich. Next to us lived Uncle Borya and Aunt Nadya. It is only now that I know that he was a Jew and she was Russian. Uncle Borya worked as a welder at a bread-baking plant. And we, the children from the whole courtyard, always waited for him in the evening behind the corner, because he frequently brought us a loaf of bread from the plant. When he pulled it from under his heavy welder's overalls that looked like a diving-suit, when we all dug into this loaf, it never occurred to us who was of what nationality...[end Dvorkis]

Dvorkis is a well-known person in Vinnytsya Oblast. He is even tall, like Don Quixote. And as to windmills, he has plenty of those. Quite often photographs are published of other people's three-story luxurious palatial dachas in "king's villages" and run with the caption that this is all his (let him prove otherwise)... PRAVDA UKRAINY, for instance, recently wrote that Dvorkis was deciding personnel issues in public baths. And this large article was reprinted not only by oblast but even rayon newspapers. Apparently, journalists working for former Communist Party publications are convinced to this day that such important matters are decided only in the baths, with heavy imbibing.

[Dvorkis] Let them know that I probably have not visited the public baths for 10 years. Why? In order to avoid that same drunken crowd they are writing about...

Economic Issues

Pynzenyk Admits Countryside Is Faring Badly

954K0438A Kiev DEMOKRATYCHNA UKRAYINA in Ukrainian 17 Dec 94 p 1

[Article by Mykola Petrushenko: "The First Deputy Prime Minister Has Seen the Light. He Admitted From the Podium of the Supreme Council That in No Other Country in the World Are the Peasants Being Robbed as Much as in Ukraine"]

[FBIS Translated Text] The statements made by Viktor Pynzenyk, the first deputy prime minister, no longer surprise anyone. The first thing he said upon assuming high office the first time was that there would be no price increases. A few days later, the cost of everything went up.

The return of the great prophet to government ushered in shock therapy. The first deputy prime minister is one of the authors of this therapy. And when prices soared again in October, Pynzenyk immediately found the culprit. He put the blame for everything on the peasants. He alleged that they were ignorant, that they were exploiting the situation and growing rich on the reforms. He announced from high tribunes and in interviews that the government was sending commissions to the countryside to expose the peasants.

The inspectors went everywhere, conducted audits, and wrote up reports. All the reports concluded the same thing: The state is robbing the peasants. However, for some reason V. Pynzenyk did not announce the results of these audits from the same high tribunes. Apparently, he was ashamed to do so.

The deadline by which he promised to destroy the monopolists, that is, the peasants, so that life would improve has also passed. Life did not get better, because there is nothing left to destroy. The peasants produced goods and delivered them to the state, yet have nothing but losses to show for it.

Nonetheless, on 6 December, V. Kalnyk, the deputy minister of the economy, tried to persuade his audience from the podium of the Supreme Council that life in the countryside is normal and that the state is looking after the peasants as a mother looks after her child.

Apparently, the deputies had reached the end of their patience. They interrupted him with the unparliamentary expression: "Is there no end to the lies?" They then moved to hear a report from the leadership of the Cabinet of Ministers. And on 14 December, V. Pynzenyk took the podium. This time he announced that in no other country in the world are the peasants being robbed as much as in Ukraine.

At last the truth has been told. But not the whole truth. Because it is not enough to name the disease; it is also necessary to establish the cause. And the cause lies, to put it mildly, in the government's short-sighted policy with respect to the countryside. This is precisely what the Cabinet of Ministers refuses to admit. This is why the first deputy prime minister was unable to answer when he was asked about what the peasants are to live on today and tomorrow. All he did was promise to complete working out the mechanism for compensating rural producers.

We have heard similar promises many times before. Yet the results are always the same. They are best described by the saying: "The master said he would give me a sheepskin coat."

While the master is taking his time, production is collapsing and the future is being lost. Thus, what the producers want is not only that the government should admit that the state is exploiting the peasants, but that it should do no harm to those who provide it with food.

Commission on Power Engineering Created

Decree on Statute's Acceptance

954F0846A Simferopol KRYMSKIYE IZVESTIYA in Russian 5 Jan 95 p 1

["Decree of the Crimean Government No. 307, 29 December 1994, City of Simferopol: On Confirmation of the Statute on the Government Commission on Power Engineering"]

[FBIS Translated Text] The Crimean Government **decrees:**

To confirm the Statute on the Government Commission on Power Engineering (attached).

[Signed] Prime Minister of the Crimean Government A. FRANCHUK

Statute on Creation of Commission

954F0846B Simferopol KRYMSKIYE IZVESTIYA in Russian 5 Jan 95 p 1

["Statute on the Government Commission on Power Engineering"]

[FBIS Translated Text] 1. GENERAL PROVISIONS

1.1. This commission is established by the government with the aim of effecting the resolution of issues related to regulation of electric power consumption, establishment of operating modes for energy consumption, and coordination of the actions of enterprises in the fall and winter period.

1.2. The commission is guided in its work by the legislation of Ukraine and the Crimean Republic, as well as by this statute.

1.3. The commission carries out its activity under the immediate direction of the Government of the Crimean Republic.

1.4. Decisions of the commission are subject to execution on a mandatory basis by all enterprises, organizations, and institutions located in the Crimean Republic, regardless of form of ownership.

2. TASKS AND FUNCTIONS

The commission accomplishes the following within the limits of its jurisdiction:

2.1. Coordinates the activity of energy-supply organizations and consumers so as to ensure the effective use of available resources.

2.2. Makes operational decisions on changing the operating mode for consumers of energy resources, proceeding from the situation in effect, while ensuring minimal losses within the national economy.

2.3. Provides, jointly with city and rayon ispolkoms [executive committees] and energy-supply organizations, monthly distributions of electric power consumption quotas among consumers.

Monitors observance of operating modes for electric power consumption, emergency shut-down schedules, measures to ensure efficient reductions in electric power consumption, primarily during peak morning and evening hours, and payment for energy consumed.

2.4. Makes decisions on additional measures regarding security of energy facilities and the fight against inefficient utilization and misappropriation of energy resources.

2.5. Informs the populace regarding the state of affairs in electric power supply and on measures being employed in particular situations.

3. RIGHTS

The commission has the right:

3.1. To listen to the directors of various subdivisions and local organs of executive authority on matters within its jurisdiction.

3.2. To examine disputes and make decisions in their regard when such disputes arise between energy-supply organizations and the consumers of energy resources, unless the dispute is transferred by the parties to a Court of Arbitration for examination.

To apply any and all measures with respect to violators, up to and including disconnection of electric power, taking into account the electric power supply situation.

3.3. To obtain materials and documents necessary for the resolution of issues from republic and local organs of authority.

3.4. To charge republic and local organs of authority with resolving specific issues related to the shortage of energy resources.

3.5. To examine materials on the causes and consequences of emergency situations during energy shortages, and to introduce proposals to appropriate organs on the liability of responsible officials guilty of bringing such situations about.

Decree on Wage Hike for Budget Employees

954F0875A Donetsk VECHERNIY DONETSK in Russian 5 Jan 94 p 1

["Decree of the Cabinet of Ministers of Ukraine of 26 December 1994, No. 873, Kiev: On Increasing Wages of Workers of Budget Institutions and Organizations"]

[FBIS Translated Text] The Cabinet of Ministers of Ukraine decrees:

1. Effective 1 December 1994 wage rates (salaries) shall be increased by 20 percent for workers of budget institutions and organizations of the social sphere (education, science, public health, social protection, culture, physical culture and sports, and archives), serving agriculture, veterinary medicine, fishing, and the system of the State Committee on Hydrometeorological Service, to which the laws of Ukraine concerning the establishment of average rates and salaries (average wages) at a level not below the average (double) wage in industry (throughout the national economy) do not apply.

2. The Ministry of Labor with the consent of the Ministry of Finance shall revise effective 1 December of this year the amounts of wage rates (salaries) for workers of overlapping occupations serving organs of state executive power, the procuracy, the courts, and other organs.

[Signed] Prime Minister of Ukraine V. Masol.

First Deputy Minister of the Cabinet of Ministers of Ukraine I. Dotsenko.

Decree on Pension Increases

954F0875B Donetsk VECHERNIY DONETSK in Russian 5 Jan 94 p 1

["Decree of the Cabinet of Ministers of Ukraine of 26 December 1994, No. 869, Kiev: On Increasing Pension Amounts"]

[FBIS Translated Text] In compliance with Edict No. 684 of the President of Ukraine of 18 November 1994 "On Increasing the Amounts of the Average Per Capita Aggregate Income and Targeted Monetary Grants for Low-Income Citizens," the Cabinet of Ministers of Ukraine decrees:

Effective 1 December 1994 there shall be a 1.2-fold increase in pensions assigned by organs for social protection of the population in compliance with the laws of Ukraine "On Pension Support" and "On Pension Support for Military Servicemen and Management and Rank-and-File Personnel of Internal Affairs Organs," taking into account the increments (increases) stipulated by existing legislation, additional pensions, and monthly compensatory payments in amounts up to 170,000 karbovantsy.

[Signed] Prime Minister of Ukraine V. Masol

First Deputy Minister of the Cabinet of Ministers of Ukraine I. Dotsenko

Commentary on Pension Increases

954F0875C Donetsk VECHERNIY DONETSK in Russian 5 Jan 94 p 1

[Unattributed article: "On Pensions and Rates"]

[FBIS Translated Text] As the first deputy chief of the oblast administration for protection of the population, V.A. Kucherov, told the editorial staff, additional payments to pensions and grants during December 1994 and January 1995 because of the 1.2-fold increase (that is, 20 percent) in compliance with the decree of the Cabinet of Ministers of Ukraine of 26 December 1994 will be made during the second half of January for certain additional departments.

As we know, because of the higher rates for housing and municipal services, the Cabinet of Ministers of Ukraine has adopted a number of decrees pertaining to coverage of costs of paying for them. The right to reduce the payment or to a corresponding additional monetary payment will be granted to citizens whose average monthly income per one family member over the three preceding months did not exceed: since 1 October 1994—780,000 karbovantsy, and since 1 December 1994, taking into account the coefficient for increasing wages, pensions, and stipends—940,000 karbovantsy. The compensations are established based on the family at 250,000 and 325,000 karbovantsy per month.

Certificates of incomes of pensioners have been prepared and are already being issued by housing operations committees. Apartment renters filing for a reduction in payments in compliance with the aforementioned conditions must submit their applications to municipal housing offices. And those living in the private sector—to the place of payment for the aforementioned services. Workers should apply at their place of employment.

The editors received these clarifications from the oblast administrations for social protection of the population and housing.

Kazakhstan

Supreme Council 1994 Activities Analyzed

954F0867A Almaty PANORAMA in Russian No 1, 7 Jan 95 p 2

[Article by Aleksey Gostev: "Lack of Global Political Agreement Between the President and Parliament Unjustifiably Expands Government Authority. Analysis of Supreme Council Activity Over Past Year"]

[FBIS Translated Text] Last year was for the republic's first professional parliament a kind of age of transition of a youth who is preparing to set sail not as a boy but as a man. The last collisions of December (when Nursultan Nazarbayev appealed to the deputies to agree on a discussion within the walls of the legislative assembly of the essential problems pertaining to the foundations of the constitutional structure—private property, state bilingualism, and the nature of statehood) were perceived by the local press as a "small caprice of big boys who would not obey their father's orders." Such conclusions, to put it mildly, are naive. The president, who, under the Constitution, has the right to legislative initiative, should have (if he had set the noble goal of unraveling the Gordian knot) submitted for the consideration of the Supreme Council specific draft laws regarding the aforementioned issues and he should not have tried to find out from the deputies: "Can this be discussed?" The president received the desired response to the deliberately hopeless question: "It cannot," which increased his own authority in the eyes of the public. And the parliament once again assumed the role of a negative hero.

Still there was no confrontation: To the surprise of many, the incident smoothly turned into a Christmas story with a happy ending. Indeed the deputies are like children and their emotionality is touching. Firm and unyielding, in an instant they can become "meek" and diligent. The president should be satisfied: In a record short period of time they have considered and adopted "vitally important" documents, somehow: the Civil Code (it is discussed for years in civilized countries), the Law on Foreign Investments, etc.

The second session came to an end and the deputy corps, filled with a sense of having done its duty, set off for the winter holidays.

It is possible to ask the question of whether the statesmen of the legislative assembly have passed the test of maturity. Have the deputies of the current convocation become worthy successors to their colleagues who disbanded themselves, whose historic mission, as we know, ended by the end of 1993? And, especially important, to what extent can the current parliament be considered professional?

It is not possible to give simple answers to the questions that have been raised. Obviously this is because throughout all of last year the parliament functioned irregularly, balancing on the boundary between euphoria and disgrace. By now this eclectic quality has passed and it was explained away as the price of growth. The transition to a new phase with the same set of childhood diseases is fraught with delays in development which, naturally, will add to neither the authority nor the respect for the Supreme Soviet.

The diverse parliament has demonstrated its ability to exist in several manifestations. Monastic poring over draft laws was replaced by outburst of moral-political activity. Closer toward autumn the deputy corps suddenly began to march under the banner of ardent fighters against corruption in the high echelons. The monthly cycle of their persecution complex did not have any special effect on the condition of the health of the real legal thieves, but the question "Why did the Aborigines eat Cook?" is still open since the Supreme Council spent several months adopting the Law on Civilized Housing Construction, which essentially rehabilitated that same "Cook who was eaten"—the former economics minister, Mars Urkumbayev. Somewhat earlier the peoples elect, without wishing to do so, played the role of hapless boyars from Gaydar's well-known commission and in an attack of generosity presented the new capital to the president. One can see as many parallels with masterpieces of cinematography as one may care to. Take, for example, the theatrical presentation with the resignation of the government when the parliament, while constantly expressing a lack of confidence in the antipopular course that was pursued, willingly confirmed in the position of prime minister one of the apologists of this course—Akezhan Kazhegeldin. Having found the republic government in a comatose condition, the deputy corps, like that Shura from the local committee, hastened to proclaim to the entire world the great news that "Bublikov (the Cabinet of Ministers) was dead," they gathered money for the funeral wreath, and soon explained that "Bublikov" was alive and fairly well fed. Our members of parliament should be reminded more frequently of the useful parting words given to the aforementioned heroine: "It would not be a bad idea if in addition to your public work you would at least once in a while carry out your immediate duties" (in other words, concentrate most of your attention on the legislative process).

Returning to the March elections, it should be noted that it was not by accident that they armed themselves with the majority-based system of relative majority which was adopted in Kazakhstan. Its application nullified the predictions of certain observers of the so-called "Russian" parliament which opposed the "national" executive branch. At the same time there was full confirmation of the predictions of the Progress group (Aldamzharov, Roze, Peregrin et. al.) to the effect that whether or not the elections were democratic (or—superdemocratic), the results would be the same: The parliament would not adopt the course pursued by the executive branch. This prediction was based on the fact that the socioeconomic costs of the course being pursued were so high and the interests encroached upon so significant that the representative organ (with any breakdown) would never take responsibility for the catastrophic consequences of such a policy.

The high level of activity of the candidates (on average five individuals per deputy position) predetermined the extremely variegated composition of the parliament and its fairly good "representative" qualities. On the other hand, such diversity makes it practically impossible for the parliament to take coordinated actions aimed at forming its own policy.

The actions of the present parliament convincingly prove this: While there is unity in strategic issues of confrontation with the executive power, when it comes to tactical issues a split is inevitable. The strategic unanimity also predetermines the parliament's position in the political system of the state—the parliament REALLY has an impact on many strategic decisions of the executive power. If the Supreme Council had not at one time listened to the reasonable conclusions of the Progress Coalition and had not adopted the declaration on the inadmissibility of applying existing plans for privatization, the unbridled distribution of coupons would have continued even further. Today the process of privatization has actually been halted by the government—the risk of forcing it without support from parliament is too great.

But in tactical questions the old-new government continues to ignore parliament, justifiably counting on support from lobbies in the Supreme Council and the indifference of deputies who are not interested in the specific question.

Such a situation could not have pleased the more active part of the opposition in parliament, and it took a very important step which, alas, caused an unjustified lowering of the assessment of analysts. The step was taken in the form of an inoffensive decree regarding the results of meetings with the electorate. But this document, which seemed a mere formality at first glance, contained instructions to key committees of parliament to prepare alternative concepts for various areas of legislative policy. The basic concept—the Alternative Economic Policy—has already been prepared by the Committee on Economic Reform. If this document is approved by parliament, the concept will become an ideological pivot point which will determine PARLIAMENT'S OWN POLICY in questions of TACTICS AND STRATEGY of the economic reform.

Last year Mr. Nazarbayev "made a flanking move": He distanced himself from the government. This step (right before the elections) was undoubtedly forced, but its consequences can hardly be called positive. The prime minister now has his hands tied in the adoption not only of administrative but also of POLITICAL decisions, which cannot but entail increasing the prime minister's appetite in the sense of expanding his authority. The fact that the government is "not looking the opposition straight in the eye" (see PANORAMA No. 49) is actually only a reflex for protecting the right that has been gained for making political decisions. But such a situation cannot remain long—the lack of political will in the state and the government's uncontrolled economy in it will force the latter into a Kamikaze team which is ultimately capable of working only for itself and not for the good of the republic.

But if the government (at the level of the deputy prime ministers) still tries to make contact with the opposition in a search for mutually acceptable moves, the head of the government, unfortunately, will not go beyond public denial of the existence of a worthy opposition in Kazakhstan. As a result, on the whole the constructive process along with dialogue between the two political forces of the president (but now actually semi-president) of the republic—president and parliament—will drift into mutual tactical concessions.

One can say that differences in interpreting the rules of the game force each of the branches of power to play an independent match. The opposition easily agreed to the president's proposal to work on the adoption of "vitally important" laws, knowing that their adoption would change little in economics and politics and would in no way hinder the plans of the opposition. The time for a global political agreement between the president and parliament has come. The government can claim a certain amount of independence only within the framework of the aforementioned agreement—as a purely administrative organ. The mechanism for such an agreement is already prepared—the autumn accord between the parliament and president on cooperation. And the aforementioned concept of the Committee on Economic Reform could well serve as a reliable basis for beginning negotiations (consultations).

As for the professionalism of the new parliament, in practice the previous members of the Supreme Council functioned according to a quasibicameral schema with clearcut legislative procedures and had powerful cadre and structural support for legislative work with a relatively compact staff of "apparatchiks." If in the current parliament the situation has changed with respect to these issues, it has been for the worse. The legal department of the Supreme Council has actually been buried, and the quality of draft laws depends to an immense degree on its activity. Unless the parliament shifts to truly professional procedures in the near future—a system of debates, systematization of the introduction of drafts and amendments, activation of factions and groups—it will suffer the fate of a state reception committee which rubber stamps departmental, "lobbyist" draft laws.

The last prediction is almost 100 percent certain, since the current leaders of the Supreme Council represented by speaker Abish Kekilbayev is openly campaigning for the idea of de-professionalization of parliament (see PANORAMA No. 41). Moreover, recently the head of parliament has actually separated himself from resolving procedural issues: The plenary sessions are led mainly by Marat Ospanov and sometimes Kuanysh Sultanov. In the meantime, Mr. Kekilbayev is receiving foreign delegations and participating in celebratory measures, which, of course, is not prohibited. But still the speaker's functions are broader. Abish Kekilbayev is stubbornly defending the position of transforming parliament into precisely a "rubber stamp" organ. A parliamentary structure is being formed for this function and workers are being selected. Few in the Supreme Council agree to playing the role of an extra. Consequently, the question of the speaker (unless the situation changes) is merely a question of time. An attempt has already been made to overthrow the "Shah King," but the president's intervention shuffled the opposition's cards. But it will not be long now.

Government Moves To Strengthen Position

954F0866A Almaty PANORAMA in Russian No 1, 7 Jan 95 p 3

[Article by Karlygash Yezhenova: "The Government, in the Person of New Kazakhstanis, Is Actively Strengthening its Positions"]

[FBIS Translated Text] **It is just short of three months now since an event that was unprecedented for our state—a change of government. Supporters of the viewpoint that this was a simple castling of personnel are becoming fewer and fewer. For the first time in the Central Asia region, so-called new Kazakhstanis are together with standouts of the administrative school coming into the top echelons of power. And society now has a good opportunity to trace what happens in such cases.**

On 11 October the Sergey Tereshchenko government resigned en masse. Addressing deputies the day after the government's resignation, the president complained that in this time many people had partially forgotten the content of the anticrisis program and adduced as an exhaustive argument the fact that the previous government had failed to fulfill his edicts.

In his speech from the throne, the new prime minister, Akezhan Kazhegeldin, declared that he shared some of the responsibility of the previous Cabinet of Ministers, hereupon acknowledging that the new government would not be popular: "financial cleanup, bankruptcy, and the freeing of the price of bread are inevitable." As far as the relationship of the head of state and the head of the government are concerned, within two months even the prime minister, summing up the results of nine months in the Cabinet of Ministers, himself described the nature of this relationship, thereby depriving it of any particular attractiveness when heard from lips other than his: "The question of reforms and property is associated only with one personality—that of the president. On the threshold of the elections, the open nomination of candidates for this office is already beginning.... But those who announce their claims to this office sooner than others will lose the sooner also. We will try to do everything to ensure that they lose. I believe that everyone recognizes how he came to be in his office to make reforms and to whom we are obliged for this."

The new cabinet inherited from the previous one ambivalent relations with parliament, some members of which had hinted that it was the absence of support of the Supreme Council that had permitted Tereshchenko's "departure," "despite the fact that parliament hampered the prime minister no more than, say, our political parties or the press" (A. Peregrin, For the Legal Development of Kazakhstan group).

The dialogue that has begun with the opposition—on 18 October First Deputy Prime Minister Isingarin met with representatives of the Progress group of deputies—has disappointed the government somewhat, it would seem. Kazhegeldin, who stated at his first news conference as prime minister that "we must work with the Supreme Council and, if need be, spend the night there," was, truly, one of the first to make contact with the opposition, contacts that now may be characterized as slow moving. Parliament's demands concerning a real change by the government of the course that it is pursuing were insufficiently substantiated for the continuation of a debate of equal value in terms of professional arguments.

Aside from the members of parliament's obvious observations that Kazhegeldin is putting the emphasis on the fledgling national bourgeoisie, which will very soon be a decisive political force in our society (which is perfectly logical since the prime minister himself represents this force to a certain extent), the Supreme Council simply failed to specify of what the "course correction" should consist if the cabinet does not wish to become a "provisional government."

In the opinion of the experts, the weakness of the opposition taking shape in the Supreme Council is that it has been unable to interface with the industrial lobby, which has thus far merely been holding the line against government actions. The coming winter indicates—and the gas crisis is a good example of this—that this antigovernment alliance could come about.

Among the most widespread charges against the government, we may distinguish the pro-Russia mood and the commitment to the policy of the "Zionist IMF."

The government is making no particular effort to debunk such charges, regarding them more as a compliment. The active nature of the contacts with the CIS, Russia in particular, and fulfillment of the demands of the world financial community represent the policy of the new cabinet.

As commissioned by PANORAMA, the BRIF Public Communications Agency conducted on 14-17 October a poll concerning the public's attitude toward the change of government, the results of which at that time revealed a great reserve of strength of the Kazhegeldin cabinet, despite the fact that he was not very well known in the republic at that time. Analysis showed that if the Kazhegeldin government paid more practical attention to social support of the population, undecided citizens would subsequently unequivocally support the new cabinet and its leader.

The government was quite clearly aware of this, evidently, since a decree was adopted the following week that determined maximum appropriations for the support of the organs of state administration and the law enforcement authorities and reduced traditional expenditure considerably (as was learned subsequently, more than half a million in budget monies were saved in the reduction in managers).

And simultaneously—on 17 October—the cabinet allocated resources from the state budget for the payment of the so-called bread increment for families with children and nonworking retirees in an amount of 216 tenge and also 600 million tenge to clear up the arrears in the payment of the wages of employees of publicly funded institutions.

At a news conference on 22 October Deputy Prime Minister Sobolev declared that today all budget revenue had been channeled to this end, which caused a strain on the budget since the Ministry of Finance does not have the opportunity to fund other items of expenditure. Some 1,178,446,000 tenge were channeled in the republic to this end. The government had to mobilize all reserves and obtain credit from the National Bank.

As promised, a decree of the Supreme Council of 15 October released the price of bread and baked items. A little later the corresponding commission explained the release of the price of bread by "immoderate consumption and profiteering." Nonetheless, it has become clear even now that, despite the jump in the price of bread, its overall growth in 1994 was lower than in 1992-1993.

Judging by the promises of Deputy Prime Minister Akhmetzhan Yesimov, as of the current year bread procurements will not be funded from the republic budget. He has agreed with the deputies to defend in the 1995 budget additional items of expenditure on agriculture.

The next step was the consideration on 18 November at a meeting of the Presidium of the Cabinet of Ministers of the concept and program of measures for the demonopolization and reform of the Astyk State Stock Company.

Thus, the government, in the person of First Deputy Prime Minister Isingarin, has become actively involved in pricing, having taken under strict control the branches of the monopolists. The result of the teleconferences was a 30-percent lowering of the rates of the power engineers and railroad workers for solvent enterprises. In addition, the monopolists may change prices only once a quarter, notifying the consumers ahead of time via the press here.

The action was continued by the creation of a special commission to study the progression of payments in agriculture and an increase in the role of the Ministry of Industry; a clarification of relations with holding companies, stock companies, and companies has begun.

Offsetting payments with Russia and the creation of financial and industrial groups are being studied.

The offensive against the corps of directors is of the nature not of administrative but economic regulation: The liquidation of all commercial structures formed under the auspices of state enterprises is anticipated, intergrade rate factors common for all branches have been approved, a government commission for the regulation of payments between enterprises has been created, and so forth.

The preparation of a new concept of the privatization of state property and a tax code, a sharp reduction in the numbers of works in which money is invested, the aspiration to a budget deficit constituting 3.5 percent, the promise to remove the administrative restrictions on the production and exports of precious metals, the supplementary annulment of a guarantee on the strength of foreign credit and the tightening of the conditions of the allocation of new credit, the intention not to forgive the debts of industrial enterprises—all these actions of the new government testify that it is adopting quite serious measures, which will inevitably give rise to no less opposition and, given the usual scenario for our state, a split within the executive.

Thus, a new government crisis, intensified by the coming elections, is possible in the coming year. If it considered that the carte blanche that the president gave the Tereshchenko cabinet has smoothly passed by inheritance to the present government, it will succeed, parliamentary opposition notwithstanding, in fulfilling its action program. Testifying in support of this forecast is the fact that, according to Deputy Prime Minister Vitaliy Mette, at the end of 1994 the situation in industry had improved noticeably, particularly in power engineering, chemical and petrochemical industry, mechanical engineering and metal working, and light industry. At the same time, on the other hand, the possibility of new money issue, with the amendment that a small amount here is preferable, was allowed.

Past State Property Committee Head Accused of Lobbying

954F0865A Almaty PANORAMA in Russian No 1, 7 Jan 95 p 5

[Report by Nikolay Drozd under the rubric "Privatization": "State Privatization Fund Chairman Berik Baishev Accuses Former Head of State Property Committee of Lobbying Alemsystem's Interests"]

[FBIS Translated Text] In his remarks at the scheduled press conference on 3 January in the GKI [State Committee for the Administration of State Property], State

Privatization Fund [SPF] Chairman Berik Baishev denounced the position of Kozykorpesh Yesenberlin, at whose initiative the seventh experimental auction was conducted. He said that, at the time, due to a panic demand, prices jumped on average to the level 2.5 times higher than envisaged, which considerably depressed the value of the coupon. Mr. Baishev, in his own words, opposed this action, and only the bureaucratic discipline forced him to comply with this decision. In his opinion, this was carried out to meet the wishes of major funds, including three owned by the Alemsystem corporation, while small and medium-size funds, which did not have sufficient quantities of coupons, were locked out at the time. Moreover, the SPF chairman alleged that enterprises were specially selected for participation in the seventh auction so that the funds that bought their stock could sell them to foreigners fast.

Overall, Mr. Baishev defined the substance of his disagreement with the former GKI chairman as the difference between Mr. Yesenberlin's position, oriented toward creating financial-industrial groups out of all funds, as well as protecting the interests of funds united under the auspices of the New Generation, and the current SPF chairman's desire to create as equal conditions as possible for all participants in the privatization process—a policy that should become the core of the state privatization policy.

The press conference, however, was devoted to the subject of last year's results. Mr. Baishev appraised the results of the first year of mass privatization as reasonably successful. According to him, in the course of coupon auctions, all offered shares of 409 enterprises were purchased, as well as part of the shares of 108 enterprises, and investment funds absolutely refused to buy shares of 15. Overall, 414.7 million tenge worth of state property—at July 1993 prices—were sold.

The funds were able to accumulate about 30 percent of the total quantity of outstanding coupons; 22.7 percent of coupons already have been used up at auctions. Mr. Baishev disagreed, however, with the contention that the collection of coupons from the population is not going well—the quantity of coupons collected is about what had been expected, he said. In different countries, between 15 and 25 percent of the population do not participate in such actions, and, therefore, we should not count on about 20 percent of coupons at all. The GKI is conducting an active information policy aimed at attracting the population's coupons, and moving the deadline for their acceptance. The national program of privatization, said Mr. Baishev, must be carried out under any circumstances.

There is a total of 168 investment-privatization funds [IPF] currently registered in the republic, but the number of funds realistically participating in privatization is considerably smaller. The fact that 48 funds were not allowed to participate in the latest—ninth—auction had practically no effect on the number of IPFs buying stocks. At the latest auctions, there were 104 such funds, which is more than at previous auctions.

But 75 percent of the funds not admitted are absolutely unable to operate, said the state privatization fund chairman. "These funds do not have the money either for decent advertising or to organize their work properly, but they continue nevertheless to accumulate coupons," said Mr. Baishev. It is envisaged to look into the state of affairs in these funds before 20 January and begin a sort of reorganization and fund-merging process. Mr. Baishev also said that a powerful limitation on the activities of insolvent funds will be established by a new rule, which mandates that they publish full disclosure of their assets and acquisitions. So far, of all the funds, only the Butya-Kapital fund has published such data. And unless other funds do it within the next few months, the SPF will have given the right to publish such data regardless of possible accusations of negative advertising.

Journalists' question reflected their puzzlement as to what makes Mr. Yesenberlin's desire to create competitive environment for the funds less preferable to the envisaged restructuring, which may even entail purely administrative redistribution of insolvent funds' assets. To which Mr. Baishev replied that SPF's current position differs by its methodology and the desire to avoid monopolism by preserving approximately 100 investment funds. It is not clear, however, how this will correlate with SPF's hotly proclaimed desire to protect the interests of the population and economic freedoms.

As it became clear at the press conference, the state privatization fund leadership's position with respect to removing limitations on investment funds' activities remains extremely conservative. The justification given for it is the need to protect the interests of the population; moreover, it was stated that the more convenient the rules are for the funds, the more risk they entail for the population. The existing restrictions, according to press conference participants, did not come out of the blue but were based on the principles introduced in the United States during the years of the Great Depression, when organizations similar to our investment funds were going bankrupt on a massive scale.

Actually, according to Mr. Baishev, a certain compromise is possible. Those funds who will nevertheless wish to purchase 51 percent of the stock of any single enterprise will have such an opportunity. But, in order to do so, they will have to publicly declare themselves high-risk funds, and declare it sufficiently loudly so that even the last little old lady who may want to invest her money in such a fund would know about it.

The previously announced number of enterprises to be privatized in the course of the mass privatization—1,500—not only will not be reduced but actually will be expanded to 2,100-2,200. Also, a small quantity of shares of enterprises subject to privatization through a custom-designed plan will be sold through coupon auctions, which will raise the average tangible contents of the coupon, which currently amounts to 70 tenge after taking inflation into account; accordingly, each individual's coupon book is valued on average at 7,000 tenge worth of enterprises' fixed assets. At the same time, the absence of secondary securities market and real liquidity of stocks makes these figures purely abstract.

The change of ownership as a result of the current privatization model has not produced any real shifts, however. Facts cited at the press conference attest that, as before, directors of privatized enterprises continue to knock on doors looking for credits. And neither the new owners-investors nor the National Bank, where Mr. Baishev sent an appropriate request, can change the situation. On top of that, there have even been instances of removing high-technology equipment from enterprises privatized in the course of mass privatization. The SPF has referred relevant information to the procuracy.

Answering the PANORAMA question on whether the criticism of privatization processes being expressed by the new leadership of the GKI of Russia may affect the future course of privatization in Kazakhstan, Mr. Baishev said that any information will be attentively studied by the Kazakhstan side. He further noted that "each successive GKI chairman feels himself a reformer and makes adjustments to the way privatization is implemented." However, it takes at least half a year to change the legislative base, provided the parliament has the political will to do so.

Mr. Baishev also said that privatization for money will proceed more actively in the republic. The revenue for the republic budget from the privatization of just two enterprises—Shymkent's Ontustik and Almatyglavlift—amounted to about $600,000. The SPF plans to privatize for money about 40 enterprises. At the same time, Mr. Baishev noted that it was necessary to conduct mass privatization because of extreme poverty of the population and the danger that enterprises would be bought up by foreigners for a pittance.

Atyrau Oblast Termed Ecological Disaster Area

95WN0071A Almaty EKSPRESS-K in Russian 5 Jan 95 p 5

[Abridged rendition of the memorandum to the Republic of Kazakhstan parliament written by Yu. Vikulov, chief of the Atyrau Oblast environmental agency; T. Chaklikov, health care department chief; and A. Kenzhegaliyev, chief of the Kazakhstan Meteorological Agency's West-Kazakhstan center: "The 'Second Kuwait' So Far Is a Disaster Zone"]

[FBIS Translated Text] **Atyrau authorities propose to declare the oblast an ecological disaster zone. The decision must be made by the Supreme Council. It is not an easy decision—if it is declared a disaster zone, additional state subsidies are needed for environmental protection measures and social allowances. At the same time, some rayons are indeed in a catastrophic situation. Yu. Vikulov, chief of the Atyrau Oblast environmental agency; T. Chaklikov, health care department chief; and A. Kenzhegaliyev, chief of the Kazakhstan Meteorological Agency's West-Kazakhstan center, presented their arguments in a memorandum sent to the parliament. We are publishing excerpts from this document.**

Over a long period of time economic development in Prikaspiyskiy Rayon was carried out on the basis of extensive use of natural resources, without taking into account future ecological and social consequences of economic decisions made.

Sectoral agencies did not deal with questions of ecological safety in the development and exploitation of oil and gas fields in the areas adjacent to the Caspian Sea and in the construction and exploitation of large industrial facilities for processing of raw hydrocarbons.

As a result, an extremely tenuous ecological and sanitary-epidemiologic situation has developed in the region. The anthropogenic effect on the environment is exacerbated by natural factors. The Caspian region's geographic position in itself makes it a geochemical trap for toxic waste circulating in the basin.

One of the latest factors is the intensive rise in the Caspian Sea level, which over the past 15 years rose by more than 2 meters.

As a result, the geoecological situation in the Caspian region worsened dramatically. This results in considerable damage to the national economy and has already put the region on the verge of ecological disaster.

Thousands of hectares of land, hay fields, animal husbandry farms, and farm structures already are underwater.

Observations show that if the sea level continues to rise, the flooded area will increase significantly, as a result of which population centers and economic entities, highways and oil fields will end up in the zone of flooding and wave-caused erosion.

Of particular danger to the northern, natural preserve part of the Caspian Sea in connection with its sharp rise is exploitation of the Martyshi, Karsak, Prorva, and [word illegible] oil fields. Practically all oil fields are in the water, because of sea water filtering through the body of existing dams.

A number of oil fields already are completely flooded: East Kokarna, Tadzhigali, Pribrezhnoye, Pustynnoye, and others. Capping wells in the open sea may result in oil and gas showings because of the decay of technical and exploitation systems affected by sea water.

Oil pipelines and power transmission lines have been flooded and subjected to impact of sea waves. In a number of places, pipelines already have been washed out; electrochemical protection is not working. No concrete measures or design solutions on moving and protecting pipelines have been drafted.

Because of this, accidents can happen during ice movement and storm winds. There are no stand-by technical means and measures to deal with the consequences of accidents. We have checked the condition of all aforementioned objects more than once and have submitted the necessary proposals.

The work currently being done in the area of protecting oil fields from flooding represents essentially temporary measures against the sea-driven phenomena but not from the rise in its level. Construction of capital dams designed to protect from further rise in the sea level will require colossal expenditures that are perhaps incommensurate with the benefits that will be derived.

In these circumstances, the following tasks need to be dealt with.

1. Ensuring ecologically safe and economically expedient development of oil fields and installation of new technologies for their utilization.

2. Ensuring reliable capping or liquidation of oil fields, especially old ones, whose protection from the threat of flooding is not economically justified.

3. Moving the objects of production infrastructure and external accommodations from the flood zone.

The region does not have sufficient science and technology potential and material resources to deal with the set of such complex problems.

Another important line of work is evaluation and liquidation of the consequences of operating military test sites, which used to occupy more than 15 percent of oblast's territory.

Most of this land was occupied by three test sites whose centers were located on the territory of Astrakhan Oblast, which to a certain extent made information collection and liquidation of consequences more difficult.

Geobotanical, hydrological, geochemical, and radiation study of the landscape, combined with the medical and sociological observation of the population, was conducted on the territory of test sites and areas adjacent to them.

Test site territories, as well as other land occupied by military agencies in Isatayskiy and Inderskiy Rayons, are littered with military equipment debris.

There are more than 300 separated rocket stages with remaining fuel in Taysoygan Sands alone. Contamination of this territory of 11,000 hectares with dimethylhydrazine (rocket fuel heptyl) and nitrosodiethylamin exceeds the PDK [maximum allowable concentration] by a factor of 10-15.

It has been verified that they migrate from the soil into plants and even the animals feeding on these plants, which presents a threat for the population's health.

In both areas, concentration of thallium, lead, strontium, cadmium, bromine, nitrates, chlorides, and sulfates in excess of the PDK was detected during hydrochemical testing of water points used for economic and household purposes. For instance, of the more than 60 wells examined on a Baldukskiy farm, practically none met the requirements; moreover, using water from most of these wells has become dangerous.

Medical observation of Azgir zone residents showed that their state of health, especially that of children, is worse than average for the oblast (the incidence of disease and the mortality rate exceeding the average by a factor of two to 3.5). And the oblast level is worse than the republic average by a factor of two to three. Especially high is the incidence of cancer, as well as bone marrow and blood ailments (95 percent of children suffer from anemia).

By many indicators, the state of health of residents of Azgir and Balkuduk settlements is much worse than the corresponding indices among the population of the Chernobyl disaster zone.

Comparative analysis shows that with respect to 22 varieties of the most important diseases, the situation in Kzylkoginskiy Rayon is much worse than in the industrial Embinskiy Rayon, where the discharge of toxic substance into the environment is 1,000 times higher than in Kzylkoga.

As is known, military test site operation was suspended by the Soviet of People's Deputies exactly three years ago and was completely halted by a joint decision of the head of oblast administration and the minister of defense of the Republic of Kazakhstan. However, on 22 January 1993 an intergovernment agreement was signed between Russia and Kazakhstan on restarting operations on aviation and rocket test sites on the territory of Kzylkoginskiy Rayon in our oblast.

At the same time, a comprehensive study of these test sites and evaluation of the consequences is still not completed; the question of compensation for damages has not been resolved; and recultivation of the territory is not being done.

Despite numerous requests of the oblast and the republic, materials of the Taysoygan test site study by Russia's Main Rocket Forces Directorate have not been handed over.

Of serious concern is the radiation situation.

This is linked first and foremost with the Azgir zone, where the Institute for Experimental Physics (Arzamas-16) over the period from 22 April 1966 to 10 November 1979 conducted 17 nuclear explosions. The summary discharge of radioactive elements was close to 10 million curies (the same as in Chernobyl). Residual radioactivity is extremely high in nine cavities, with an aggregate volume of 1.2 million cubic meters, formed at the depth between 160 and 1,500 meters.

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